BILLET D'ÉTAT

XX
2013

WEDNESDAY, 30th OCTOBER 2013

Volume 2

Printed by Image Group, Caslon Court, Pitronnerie Road, St Peter Port, Guernsey GY1 3NE

SOCIAL SECURITY DEPARTMENT

BENEFIT AND CONTRIBUTION RATES FOR 2014 AND MODERNISATION OF THE SUPPLEMENTARY BENEFIT SCHEME

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

12th August 2013

Dear Sir

Executive summary

1. The Social Security Department ('the Department') has undertaken its annual review of the social security and health benefits paid under the various schemes for which it is responsible and, with the exception of family allowance, will recommend increases in all benefit rates in line with the June 2013 RPIX figure of 2.1%.

2. The exception to this general uprating is family allowance, for which the Department considers that a freeze on the benefit, at the 2013 rate, is justifiable for 2014. This position has regard to the work in progress on the Personal Tax, Pensions and Benefits Review, within which universal benefits financed from General Revenue are being considered.

3. Parts I to IV of the report provide, amongst other things, an update on the income and expenditure of the Guernsey Insurance Fund for 2012; updates on the actual costs in 2012 and the expected costs in 2013 of the various benefits, grants and allowances administered by the Department; updates on the financial sustainability of the Guernsey Insurance Fund, the Health Service Fund and the Long-term Care Fund; and set out proposed rates of contributory and non-contributory benefits and contribution rates and limits to take effect from January 2014. Parts I to IV of the report represent the Department's 'normal' Benefit Uprating Report which is laid before the States on an annual basis.

4. Part V of the report deals with the modernisation of the supplementary benefit scheme. The process to reform the supplementary benefit scheme commenced in January 2010. Following rejection in March 2012 of the funding propositions for this reform (Billet d'État XX of 2012), the newly elected members of the Social Security Department recognised that the

financial implications of any revised proposals must be coordinated with the overall budget of the States and longer term financial planning. Consequently, it became essential for revised proposals for supplementary benefit and rent rebate reform to be presented at the same time as the budget proposals, which is almost four years after the reform process commenced. In addition, the ongoing Personal Tax, Pensions and Benefits Review means that the timing of this report is right in order to seek in principle decisions prior to identifying the funding.

5. The modernisation is part of a longer transition process which has to take into account the changes implied by the closure of the rent rebate scheme, the Personal Tax, Pensions and Benefits Review, changes in ongoing attitude to equality and poverty and shorter term public finance pressures and long-term demographic patterns. Consequently, the Department concluded that the report on the modernisation of the supplementary benefit scheme should form part of its uprating report. Complete separation of the two aspects would present significant risk of disjointed and inconsistent decision making.

6. The timing of this report allows the proposals contained within it to be considered at the same States meeting as the Treasury and Resources Department's Budget proposals for 2014.

Key recommendations

7. This report contains the following key recommendations:

(a) a 0.5% increase in the percentage contribution rate for employers, from 6.5% to 7%, from 1 January 2014 (paragraphs 23 to 26);

(b) subject to approval of (a) above, a 1% decrease in the grant from General Revenue to the Guernsey Insurance Fund, from 15% of contribution income to 14%, from 1 January 2014 (paragraphs 27 to 31);

(c) the fifth and final phase increase in the upper earnings limit for employed, self-employed and non-employed people as part of the five year phasing in period (as agreed at the July 2009 States meeting - Billet d'État XXI of 2009) from £119,340 to £132,444 from 1 January 2014 (paragraphs 64, 71 and 76);

(d) increases in the upper earnings limit for employers from £129,792 per year to £132,444 per year and in the lower earnings limit from £125 per week to £128 per week from 1 January 2014 (paragraphs 63 and 69);

(e) an increase in the lower income limit at which non-employed contributions become payable from £16,250 per year to £16,640 per year from 1 January 2014 (paragraph 79);

(f) an increase in the non-employed allowance, which is subtracted from the annual income figure before liability is calculated, from £6,895 to £7,059 from 1 January 2014 (paragraph 80);

(g) an increase in the prescription charge of 10p, taking the cost of a prescription to £3.30 per item from 1 January 2014 (paragraph 97);

(h) an increase in the supplementary fuel allowance from £27.93 to £30.00 per week for the 27 week period commencing from the last week in October 2013 (paragraph 153);

(i) a modification, by Ordinance, to the Health Service (Benefit) (Guernsey) Law, 1990, in relation to specialist medical benefit, in order to allow the Department to fund the costs associated with visiting medical specialists from the Guernsey Health Service Fund (paragraphs 104 to 114);

(j) an amendment to the Supplementary Benefit (Implementation) Ordinance, 1971 to allow compensation payments from the Skipton Fund and the back to work bonus to be wholly disregarded for the purposes of a claim to supplementary benefit (paragraphs 170 to 180);

(k) an amendment to the Supplementary Benefit (Implementation) Ordinance, 1971 so that a deprivation of resources that has the effect of securing a supplementary benefit or increasing the amount thereof may be taken into account when assessing a person's entitlement to supplementary benefit (paragraphs 181 to 184);

(l) an amendment to the Supplementary Benefit (Implementation) Ordinance, 1971 to make persons residing in a dwelling listed on Part A of the Open Market Housing Register ineligible for a rent allowance (paragraphs 185 to 209);

(m) an increase in supplementary benefit requirement rates as set out in tables 17 and 18, from January 2014 (paragraph 143);

(n) subject to funding being made available and not prior to January 2015:

i. the closure of the rent rebate scheme (paragraphs to 369 to 392)[1];

[1] The Department recommends that (n) to (o) will not be given effect until the source of the required additional funding has been identified in the course of the Personal Tax, Pensions and Benefits Review, with particular reference to the redistribution of universal benefits, and approved by the States.

ii. the introduction of maximum rent allowances for families within the supplementary benefit scheme (paragraphs 393 to 399);
iii. an increase in supplementary benefit requirement rates as set out in table 28 (paragraph 448);
iv. an increase in the weekly supplementary benefit limitation for people living in the community from £500 to £600 (paragraph 405);

(o) subject to funding being made available and not prior to January 2016, an increase in the weekly supplementary benefit limitation for people living in the community from £600 to £650 (paragraphs 405 to 407);

REPORT

PART I
SOCIAL INSURANCE

Income and expenditure on Guernsey Insurance Fund

8. The overview of the Guernsey Insurance Fund accounts for 2012 is shown in table 1 below.

Table 1 - 2012 Guernsey Insurance Fund accounts

Income from contributions	£94.87m
Income from States Grant	£14.22m
Total (excluding investment income[2])	£109.09m
Total benefit expenditure and administration	£117.87m
Operating deficit	£8.78m
Depreciation (mainly IT systems)	£1.21m
Total operating deficit	**£9.99m**

Financial sustainability of Guernsey Insurance Fund

9. The Guernsey Insurance Fund provides a broad social security coverage against contingencies that may interrupt or end wage earning capacity. These contingencies include sickness, unemployment, work-injury and old age.

10. The Guernsey Insurance Fund receives income from three sources:

a) Contributions paid by employers, employees, the self-employed and the non-employed under pension age;
b) An annual grant from General Revenue, based on a percentage (currently 15%) of total contribution income;
c) Investment income.

[2] Investment income allocated to the Guernsey Insurance Fund was £9.74m in 2012.

11. From 1995 until 2008 inclusive, the Fund had an operating surplus of income over expenditure. Over time, the reserves of the Fund have grown to £619m (as at 31 December 2012), far in excess of what would be needed for pure 'pay-as-you-go' social security schemes where contribution income in a year is intended to cover expenditure in the year, and no significant fund of assets is built up out of which to finance future expenditure.

12. Growing the Fund has been a purposeful strategy aimed at moderating the financial impact on the Fund of the changing demographic profile of Guernsey and Alderney as the population ages and the ratio of workers to pensioners significantly weakens. If there were no reserves, contribution rates would have to increase substantially over time in order for broadly the same numbers of people of working age to pay the benefits for a doubling of the number of pensioners. That stark situation can be eased by using first the investment income of the Fund and subsequently drawing down on the capital value of the Fund in order to maintain contribution rates at reasonable levels.

13. At the July 2009 States meeting, the Department reported on the future financing of the contributory social security schemes (Billet d'État XXI of 2009). The States approved the majority of the Department's proposals, including a gradual increase in the pension age from 65 to 67, starting in 2020 and ending in 2031, and increasing the upper earnings or income limit for contributors over a five year period to match the upper earnings limit applicable to employers' contributions. The States did not, however, approve the Department's proposed increase of 0.5% in the contribution rate paid by employers. This proposal would have increased the current rate from 6.5% of earnings to 7.0% of earnings and played a key part in the package of measures aimed at securing the long-term financing of the contributory social security schemes.

14. At the request of the Policy Council's Fiscal and Economic Policy Group, the Department agreed to await the resolution of the second phase of the Zero-10 corporate taxation reforms before bringing forward any further proposals on changes to contribution rates. As the Department waited, the absence of the 0.5% increase in the employers' contribution rate, as recommended in July 2009, has resulted in the Fund foregoing approximately £6.0m per year in contribution income (assuming that the States grant remains unchanged at 15% of contribution income). Consequently, and although the long-term strategy is for a substantial draw-down of the Fund's reserves, the Fund is in a deepening operational deficit situation earlier than anticipated. The operating deficit for the period 2009 – 2012 is shown in table 2 overleaf.

Table 2 - Guernsey Insurance Fund operating deficit 2009 – 2012

	2009	**2010**	**2011**	**2012**
Income from contributions	£83.67m	£88.49m	£92.32m	£94.87m
Income from States Grant	£12.55m	£13.26m	£13.84m	£14.22m
Total (excluding investment income)	£96.22m	£101.75m	£106.16m	£109.09m
Total benefit expenditure and administration	£100.22m	£104.26m	£108.95m	£117.87m
Operating deficit	£4.01m	£2.51m	£2.79m	£8.78m
Depreciation (mainly IT systems)	£1.15m	£1.14m	£1.16m	£1.21m
Total operating deficit	£5.15m	£3.65m	£3.95m	£9.99m

15. As reported in the Department's Benefit Uprating Report for 2012 (Billet d'État XV of 2011), the actuarial review of the Guernsey Insurance Fund for the period 2004 to 2009 inclusive, carried out by the Government Actuary's Department (GAD), indicated that, if contribution rates and the level of the States grant remain unchanged and if benefit rates continue to be uprated by the mid-point between price inflation and growth in earnings, the reserves of the Fund will be exhausted by 2037. This projection is based on the principal migration assumption that there will be variable migration such that the total population will remain constant at the April 2007 level, in line with the States Population and Migration Policy Statement. To accommodate this assumption, the GAD model further assumes that the population is kept constant through a reduction of people of working age rather than pensioners, which compounds the issue caused by the increase in assumed life expectancy. Between the 2003 and 2009 actuarial reviews, the assumed life expectancy at 60 increased by nearly 4 years (to 27.6 years for men and 30 years for women).

16. From the projections contained in the review and following further inquiries made of the GAD it was confirmed that, with no further reserves to draw on, there would then be an immediate need, from 2038 onwards to:

    a) Either increase the pay-as-you go contribution rate to the Guernsey Insurance Fund from the current 8.3% (employee and employer combined) to around 13% of earnings; or
    b) Draw on General Revenue by around £90m per year (in 2011 terms); or
    c) Make substantial cuts in pension expenditure.

17. The Department's 2009 proposals, which incorporated the proposed 0.5% increase on employer contributions, envisaged a drawdown of the Fund over

the long-term but, throughout the projection to 2060, envisaged a balance of approximately two years' expenditure being retained in the Fund to cope with the fluctuations of the economic cycle.

18. Further enquiries of the GAD, taking into account revised assumptions on life expectancy and population, have estimated that an increase in the employers' contribution rate of 1.7% instead of 0.5% would be required to take the Guernsey Insurance Fund out of annual deficit for the next few years and to slow the draw-down on the Fund in the longer term. This estimated increase in the contribution rate now required to take the Guernsey Insurance Fund out of annual deficit highlights the importance of addressing the funding issue without further delay.

19. It should be noted that there are similar issues with the contribution rates for long-term care insurance, which are referred to in paragraphs 132 to 136 of this report.

20. On 26 September 2012, the States approved two amendments to the Department's report regarding Contribution Rates for 2013 (Billet d'État XX of 2012), proposed by Deputy Fallaize. In presenting his amendments, Deputy Fallaize made clear his view that the States should not delay further in taking the necessary actions to secure the long term future of pensions and long-term care provision in the Island. The first amendment directed the Department to report to the States, by no later than October 2013, with proposals setting out any structural reforms and changes to contribution and/or benefit rates which it considered necessary in order to ensure the long-term sustainability of the Guernsey Insurance Fund. The second amendment required the Department to report on similar lines by October 2014 with regard to the Long-Term Care Insurance Fund.

21. The Department recognised the importance of the Deputy Fallaize amendments and, in particular, their aims to help expedite the important task of ensuring the sustainability of the two Funds. The Department did not oppose the amendments and were happy to see them both carried without any apparent opposition. The Department has remained mindful of the amendments and their intent while engaged in a comprehensive review of Guernsey's personal tax, Social Insurance, old age pension and benefits systems (herein known as the 'Personal Tax, Pensions and Benefits Review'). The purpose of the review is to ensure that Guernsey and Alderney have sustainable public services and revenue in the long-term and to ensure that there is the right balance of fairness, efficiency and sustainability in the Islands' personal tax, benefits and old age pensions systems.

22. The Personal Tax, Pensions and Benefits Review, which commenced in early 2013, is expected to take two years to complete. A consultation exercise was undertaken during April and May of 2013. A summary of the consultation feedback was published in August 2013 and the Social Security Department

and Treasury and Resources Department will be reporting in 2014 on the actions that will be progressed as a result of the review.

23. In advance of the conclusions and recommendations that will emerge during 2014 from the Personal Tax, Pensions and Benefits Review, and in view of the Deputy Fallaize amendments and the increasing operating deficit in the Guernsey Insurance Fund, the Department proposes an increase of 0.5% in the employers' contribution rate, taking it from 6.5% to 7.0% of earnings. It is estimated that this will increase contribution income by £5.3m per annum. It is proposed that this be wholly allocated to the Guernsey Insurance Fund. The Department is not proposing an increase in the contribution rates for self-employed or non-employed persons.

24. Clearly, this is only a partial move towards the estimated 1.7% increase which was calculated by the GAD as necessary for long-term sustainability based on the constant population assumption and with a benefit uprating policy of matching the midpoint of the increase in prices and the increase in earnings. The Department recognises that an increase of 0.5% does not comply fully with the Deputy Fallaize amendment, but it considers it to be a prudent measure which will moderate the operating deficit. In addition, the Department is proposing that it return to the States with detailed proposals for sustainability of the Guernsey Insurance Fund as soon as possible after the Personal Tax, Pensions and Benefits Review has been concluded.

25. The Department has consulted with the Commerce and Employment Department regarding its proposal to increase the employers' contribution rate by 0.5% from 1 January 2014. Although the Commerce and Employment Department acknowledges that the Guernsey Insurance Fund deficit needs to be addressed, it does not support the timing of the proposed increase or the targeting of employers. The Commerce and Employment Department is of the view that this would represent a substantial (over 7.5%) increase in the amount that employers are required to contribute, at a time when Guernsey is under significant pressure to remain competitive in the global economy. The Commerce and Employment Department is of the view that the employee's contribution rate, rather than the employers' rate, should be increased in the first instance, due to the significant negative impact that the projected increase in assumed life expectancy has had on the projected deficit. Further, it considers that it would not be appropriate to make any changes to the current funding arrangements of the Guernsey Insurance Fund ahead of the completion of the Personal Tax, Pensions and Benefits Review.

26. The Department has considered the Commerce and Employment Department's views and has decided that, on balance, the need to start to address the operating deficit of the Guernsey Insurance Fund outweighs the Commerce and Employment Department's concerns.

States Grants to Funds

27. The Guernsey Insurance Fund currently receives a grant from General Revenue equal to 15% of the total amount collected in contributions. The Guernsey Health Service Fund receives a grant equal to 12% of the contributions collected for that Fund.

28. If the States approves the Department's proposal to increase the employers' contribution rate by 0.5%, and the States grant to the Guernsey Insurance Fund remains at 15%, the value of the grant from General Revenue would increase by £0.8m (i.e. 15% of the £5.3m extra contribution income raised per annum by increasing the employers' contribution rate by 0.5%).

29. In view of the current severe constraints on General Revenue expenditure, the Department recommends that the States grant to the Guernsey Insurance Fund be reduced by 1% to 14% of the total amount collected in contributions. This will reduce the States grant that would otherwise be paid, by £1.0m, and will more than offset the potential increase of £0.8m caused by increasing the employers' contribution rate by 0.5%.

30. Therefore, the estimated net increase in income to the Guernsey Insurance Fund in 2014 as a result of increasing the employers' contribution rate by 0.5% and reducing the States grant to 14% of total contribution income is £5.1m.

31. The estimated cost to General Revenue of the States grants to the two Funds in 2013 and 2014 is shown in table 3 below:

Table 3 – Estimated cost to General Revenue of the States grants – 2013 and 2014

Fund	General Revenue Grant - 2014	General Revenue Grant - 2013
Guernsey Insurance Fund	£14.58m	£14.52m
Guernsey Health Service Fund	£4.50m	£4.39m
Total	**£19.08m**	**£18.91m**

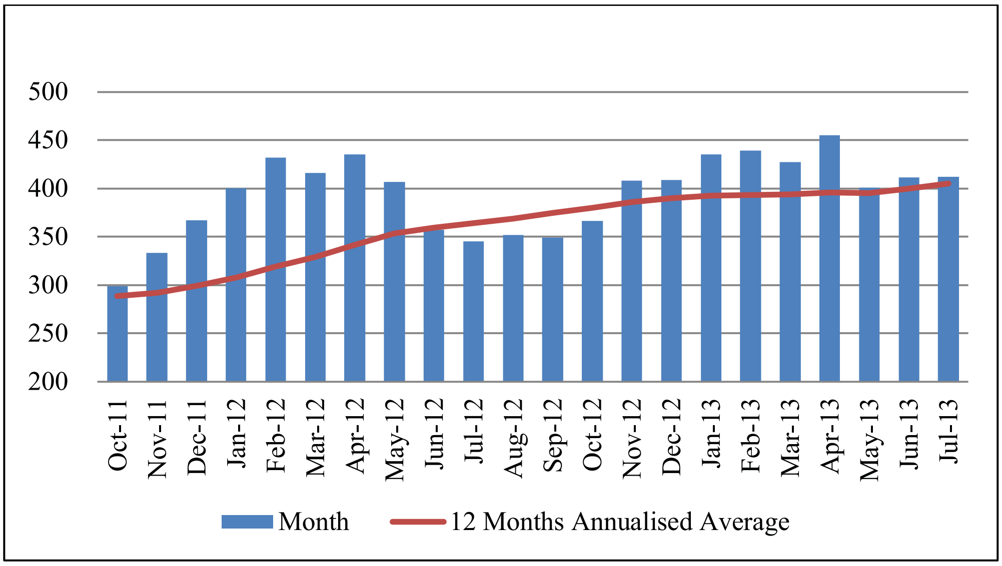
Number of pensioners

32. At the end of April 2013, the Department was paying pensions to 16,378 pensioners, 5,219 of which were not resident in the Bailiwick. In 2012, benefit expenditure on old age pensions amounted to £94.75m and constituted approximately 83% of the total expenditure of £113.56m on social insurance benefits.

Number of people unemployed

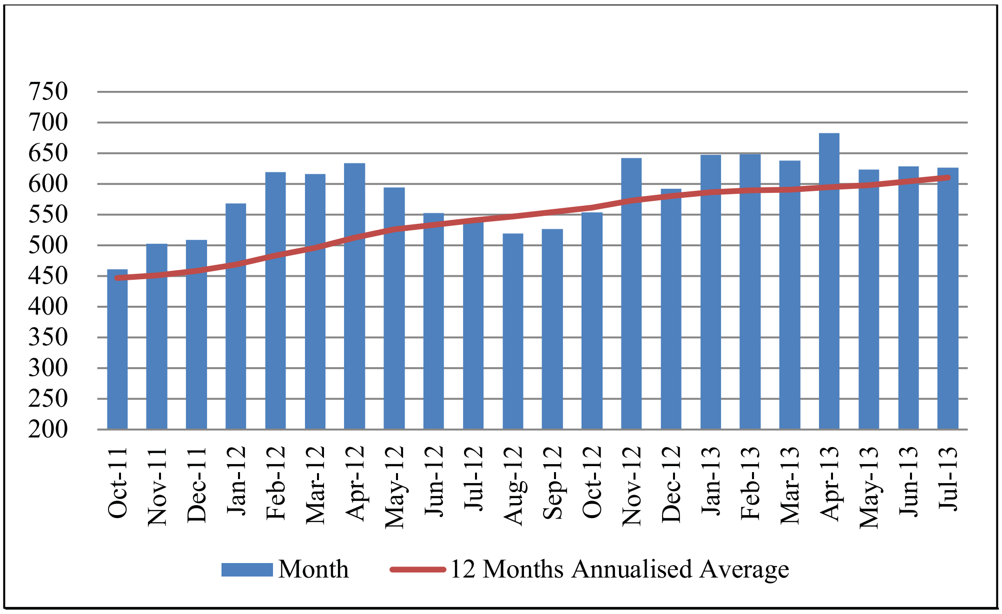
33. Using the International Labour Organisation's (ILO) definition of unemployed, which excludes anybody on a government training scheme (such as the Community and Environmental Projects Scheme) and anybody who carries out at least one hour's paid work in a week (which could be the case for someone claiming supplementary benefit as a jobseeker), the number of unemployed at the end of July 2013 was 412 or 1.3% of the working population. This included 200 people claiming contributory unemployment benefit only, 90 people claiming contributory unemployment benefit and a supplementary benefit top up and 122 people without entitlement to the contributory unemployment benefit but receiving supplementary benefit. Figure 1 below shows the total number of unemployed, using the ILO definition of the term, during the last week of the month, and the annualised average, from October 2011 to July 2013.

Figure 1 - Total number of unemployed persons using the ILO definition of the term and annualised average - October 2011 to July 2013



34. Using local benefit definitions, there were 626 jobseekers at the end of July 2013, which is approximately 2.0% of the working population. 186 of these were in part-time or casual employment. A further 28 people were temporarily employed on the Community and Environmental Projects Scheme or other form of training scheme. Figure 2 overleaf shows the total number of jobseekers, including people in part time or casual employment or on government training schemes, during the last week of the month, and the annualised average, from October 2011 to July 2013.

Figure 2 - Total number of jobseekers (including people in part time or casual employment or on government training schemes) and annualised average - October 2011 to July 2013



35. The Department continues to work closely with the Housing Department to ensure that employers seeking short-term housing licences engage with the Job Centre as part of their recruitment process. In June 2013, the Social Security, Housing and Commerce and Employment Departments launched a new pilot initiative to match jobseekers to future vacancies. In particular, this initiative seeks to train up local jobseekers to undertake some of the lower skilled roles which will become vacant when some short-term housing licences expire. The success of this 12-month initiative is dependent upon partnership working between the three States Departments and the employers concerned. The employers approached so far have reacted positively and the Department is confident that this will lead to more work opportunities for local jobseekers. The Department will report on the outcomes of the initiative in next year's Benefit Uprating Report.

36. The Department continues to outsource a significant proportion of its job placement activities to a local recruitment agency. From May 2012 until June 2013 (inclusive), the agency has placed 257 jobseekers into employment. This arrangement has brought about a change in the way in which the Department assists jobseekers to find work, with greater emphasis now being placed on building relationships with employers for the mutual benefit of employers seeking to fill vacancies, and jobseekers seeking work. The agency has also carried out work to develop more advanced techniques to match claimants to jobs and is making use of new technology to monitor jobseekers' efforts to find work.

37. During November 2012, the Job Centre, in partnership with the Department's job placement agency, held the Department's first job fair. As well as members of the public, 85 registered jobseekers attended the event and, as a result, 25 of these jobseekers found employment. All the employers which took part in the event said that they would be willing to take part in further job fairs. The next job fair is planned to be held in November 2013.

38. During 2013, the Department restructured its Job Centre. It has separated out the claim taking and assessment functions so that the Job Centre team concentrates solely on job vacancies, return to work initiatives and job placement. While making this change, the Department has taken the opportunity to move its work rehabilitation service into the new Job Centre and also give the Job Centre team responsibility for the Department's various training schemes.

39. The Department set out detailed work incentivisation proposals in its March 2012 States Report on the modernisation of the supplementary benefit scheme (Billet d'État V of 2012). While the States approved the work incentivisation proposals, approval was not given to direct the Treasury and Resources Department to approve the additional staffing resources necessary to implement and deliver these new work-related elements. The Department is currently preparing a business case to implement these proposals as a Financial Transformation Programme (FTP) project. The aim of the project is to promote and enable personal independence through employment (for those who are able) using work-focused meetings, access to training, mandatory work placements, structured action plans and targeted sanctions. It is anticipated that investing in additional staff to carry out these activities will result in a net saving to General Revenue of over £500,000 by year 2 of the project, through a reduction in benefit payments and an increase in income tax receipts.

40. Subject to approval of this FTP project and the necessary amendments to the supplementary benefit legislation, it is hoped that the Department will be able to commence implementation in early 2014. The restructure of the Job Centre will help to ensure the success of this initiative.

41. The Department offers a wide range of initiatives aimed at helping people with different barriers to work to secure employment, as set out in table 4 overleaf:

Table 4 – Employment initiatives run by the Social Security Department

Initiative	Description
Work trial	Chance to demonstrate capability to an employer where a real job is on offer. (Benefit remains in payment).
Work experience	Extended work experience with learning goals. (Benefit remains in payment).
Gradual return to work	Phased return to work following long-term sickness. (Some benefit remains in payment).
Kick start	On the job training with employers aimed at people at risk of long-term unemployment. (Minimum wage rates apply).
Basic skills training	Help with basic I.T., reading and numerical skills. (Benefit remains in payment).
Short-term training	Help for the long-term unemployed or those requiring retraining following illness. (Benefit remains in payment).
Back to work bonus	One-off lump sum payable following a return to work and claim closure in cases of long-term unemployment and long-term sickness.
Job start expenses	Help with some of the costs associated with starting work, such as tools, boots, clothing etc.
GOALS	Motivational course aimed at tackling barriers to employment by improving self-esteem and developing a positive mental attitude. (Benefit remains in payment).
Community & Environmental Projects Scheme (CEPS)	Paid work and training opportunities for people who are not working due to unemployment or long-term illness. (CEPS wage paid).
Recruitment grant	Staged payments to an employer to recognise the extra training and support required when recruiting someone who has been long-term unemployed or long-term sick.
The "Get into ..." range of training courses	Short courses aimed at unemployed young people to help identify their skills and aptitude. (Benefit remains in payment).
Job Centre Support Contract	Professional recruitment consultants working with employers and jobseekers to improve the recruitment of local jobseekers and thereby reduce the dependency on short-term Housing licences.
Food and Retail Skills Shop	Promoting work opportunities within the food and retail sectors and provision of advice, support and training. Venue for Job Fair events and for training courses delivered to jobseekers.

42. The Department believes that it is important to continue to offer a range of initiatives to assist and support jobseekers into work. An assessment of the return on investment from the various initiatives was carried out in October 2012. This showed that these initiatives resulted in a net saving/cost avoidance for the States of approximately £8,500 per week arising from a reduction in the duration of benefit claims. The net saving/cost avoidance attributed to the Community & Environmental Projects Scheme was approximately £3,000 per week. The Department will continue to monitor the effectiveness of its initiatives and to explore new opportunities to improve the employment prospects of jobseekers.

Update on the number of people receiving invalidity benefit

43. In 2012, the Department reported the first decrease in the number of long-term incapacity claims for a number of years. The Department is pleased to report a further decrease in 2013 as set out in the snapshot data in table 5 below.

Table 5 - Snapshot comparison of number of invalidity benefit claims 2008 - 2013

Date	Number of claims	Percentage change on previous year
7 June 2008	786	+4%
6 June 2009	837	+7%
5 June 2010	911	+9%
4 June 2011	923	+1%
2 June 2012	860	-7%
1 June 2013	840	-2%

44. The Department continues to pursue various initiatives in relation to early intervention and work rehabilitation. This work is discussed on a regular basis with representatives of the Primary Care Committee and this enables the Department to work more closely with GPs to support their patients back into work more quickly. While the Department is pleased that the various initiatives are having a positive effect upon claim numbers, it believes that there are further opportunities for earlier intervention to reduce the duration of some incapacity claims. The Department will be exploring these opportunities and reviewing its business processes relating to this area of work over the next 18 months and will report on progress in subsequent annual Benefit Uprating Reports.

45. Tables 6 to 9 that follow this paragraph set out the age ranges and gender of invalidity benefit cases, the ten most frequent diagnoses, a breakdown of those ten diagnoses by age and gender and the turnover of claims. In previous annual Benefit Uprating Reports the Department has highlighted the trend for mental health related claims to account for a high proportion of all long-term sickness claims. At 1 June 2013, the diagnoses of mental disorder,

depression and anxiety accounted for approximately 27% of all invalidity benefit claims.

Table 6 – Age range and gender of invalidity benefit claimants as at 1 June 2013

Age	Gender		Totals	Percentage change compared to 2012[3]
	M	F		
16-29	26	27	53	-4%
30-39	37	33	70	-16%
40-49	96	83	179	-4%
50-59	149	146	295	+4%
60-64	149	94	243	-4%
			840	**-2%**

Table 7 - Ten most frequent diagnoses on invalidity benefit claims as at 2 June 2012 and 1 June 2013[4]

Diagnosis	2013 claim numbers	2012 claim numbers	Percentage change compared to 2012[5]
Mental disorder	133	153	-13%
Depression	67	65	+3%
Back pain	29	21	+38%
Anxiety	25	26	-4%
Cerebrovascular accident	21	21	0%
Chronic obstructive lung disease	17	23	-26%
Multiple sclerosis	17	14	+21%
Chronic back pain	15	16	-6%
Low back pain	15	16	-6%
Chronic fatigue syndrome	11	13	-15%

[3] Percentage changes should be treated with caution due to the small numbers of claims that they relate to.
[4] Other less common diagnoses on invalidity benefit claims may also relate to some conditions listed in table 7.
[5] Percentage changes should be treated with caution due to the small numbers of claims that they relate to.

Table 8 - Ten most frequent diagnoses on invalidity benefit claims by age and gender as at 1 June 2013

Diagnosis	16 - 29		30 - 39		40 - 49		50 - 59		60 - 64		Total
	F	M	F	M	F	M	F	M	F	M	
Mental disorder	11	5	14	10	21	14	17	18	10	13	133
Depression	3	5	3	5	9	6	13	9	7	7	67
Back pain	1	1	1	1	2	6	3	6	2	6	29
Anxiety	1	2	2	2	4	3	8	1	0	2	25
Cerebrovascular accident	0	0	0	1	2	2	2	7	3	4	21
Chronic obstructive lung disease	0	0	0	0	1	2	4	2	1	7	17
Multiple sclerosis	0	0	0	0	3	4	7	3	0	0	17
Chronic back pain	0	0	0	0	3	2	4	1	1	4	15
Low back pain	0	1	0	1	0	1	3	1	6	2	15
Chronic fatigue syndrome	3	0	0	0	1	0	3	1	2	1	11

Table 9 - Turnover in invalidity benefit claims 2010 - 2012

	2012	2011	2010
Number of active claims at start of year	885	946	881
Less number of claims closed during the year	391	406	358
Equals constant claims throughout the year	494	540	523
Plus number of new claims during the year	362	345	414
Equals number of active claims at end of year	**856**	**885**	**937**

46. The Department has previously reported on a pilot scheme known as the Primary Care Mental Health and Wellbeing Service. The two year pilot was expected to conclude in August 2013. However, the Department has extended the pilot for a further six months in order to assess fully the impact of the service and, in particular, whether it is having a sustainable effect on retaining people in the workplace. Further information on this pilot scheme is set out in paragraphs 117 to 122.

Proposed benefit rates for 2014

47. In recent years, the Department's uprating policy for the benefits financed from contributions has been to increase benefit rates at the mid-point of the increase in RPIX (prices) and earnings. Based on the Government Actuary Department's assumption that, over the long-term earnings will exceed prices by approximately 2% per year, the Department has, in recent years, generally recommended that benefits be increased by RPIX plus 1%.

48. In light of the fact that old age pension uprating from 2005 to 2011 exceeded the movement in earnings, and taking into account the economic circumstances at the time, the Department recommended in last year's Benefit Uprating Report (Billet d'État XXI of 2012) that the rates of the contributory social insurance benefits for 2013 be increased by 3.3%, being 0.5% ahead of the June 2012 RPIX figure of 3.1%.

49. In light of the fact that the Guernsey Insurance Fund is in a deepening deficit situation and given the ongoing Personal Tax, Pensions and Benefits Review, the Department believes that it is entirely appropriate to link the proposed uprating of benefits for 2014 to RPIX, rather than recommending an increase in benefit rates in real terms. The Department is, therefore, recommending increases in the rates of pension and all other social insurance benefits of approximately 2.1%, in line with the published RPIX figure for June 2013, this increase to take effect from 6 January 2014.

50. The proposed 2.1% increase in old age pension will add £4.05 per week to the full rate single pension, will add £2.03 per week to the so called 'married woman's pension' and will mean a £6.08 per week increase for a pensioner couple on full rate pension. The joint increase will be £8.10 per week in cases where both spouses were paying full-rate contributions throughout their working lives as they will receive two full pensions totalling £393.80 per week.

51. The proposed new weekly rates of pension and other contributory social insurance benefits are shown in table 10 below:

Table 10 – Proposed weekly benefit rates for contributory social insurance benefits for 2014

Weekly paid benefits	**2014**	**2013**
Old Age Pension -		
Insured person	£196.90	£192.85
Increase for dependant wife or pension for wife over 65 based on husband's record (for men/women, as appropriate, whose marriages were before 01-01-04 and who will reach pension age before 01-01-14)	£98.63 £295.53	£96.60 £289.45
Widow's/Survivor's Benefits -		
Widowed Parent's Allowance	£207.05	£202.79
Bereavement Allowance/Widow's Pension	£178.03	£174.37
Unemployment, Sickness, Maternity and Industrial Injury Benefit	£144.90	£141.89
Invalidity Benefit	£174.16	£170.59
Industrial Disablement Benefit -		
100% disabled	£158.67	£155.41
One-off grants		
Maternity Grant	£362.00	£355.00
Death Grant	£565.00	£553.00
Bereavement Payment	£1,787.00	£1,750.00

52. These rates of weekly benefit and grants apply to persons who have fully satisfied the contribution conditions. Reduced rates of benefit are payable on incomplete contribution records, down to threshold levels.

Changes to old age pension from 2014

53. On 28 April 2003 (Billet d'État V of 2003), the States approved the former Social Security Authority's proposals for reform of the social insurance scheme to achieve gender equality. The proposals included a general individualisation of contribution liabilities and benefit entitlements.

54. At present, when a man reaches 65 he can claim an old age pension. He can also claim an addition to his pension if he has a wife under 65. The additional pension continues until his wife reaches 65 and claims her own pension. One of the changes approved by the States in April 2003 was to abolish the married man's pension addition in respect of a wife under 65. The States decided that there should be a ten year lead in to this particular change. The change will come into effect from 1 January 2014.

55. Increases of pension for a wife under 65 that are already in payment as at 31 December 2013 will continue beyond 1 January 2014 until the pensioner's wife reaches 65 and is assessed for a pension in her own right.

56. The Department has written to all men who have paid social insurance contributions to Guernsey and who will reach pension age in 2014 to make them aware of this change.

57. Since 2004, all women reaching 65 (i.e. the current pension age) have had their pension entitlements based on their own contribution records. The pension for a woman who was married as at 31 December 2003 is calculated using three different methods, as outlined below, and her pension is paid at the highest of the three rates:

- The first method takes account of just her own contribution record (which is sometimes better than her husband's);

- The second method takes account of her contribution record between leaving school and the year in which she was married and also her own record from 1 January 2004 to the week in which she reaches 65. Then for each year from the year of her marriage to the end of 2003, she can be allocated 62%[6] of the average number of contributions that appear on her husband's contribution record;

- The third method takes account of her own contribution record between leaving school and the year in which she reached 20 and also

[6] 62% relates to the proportion of a husband's pension that a married woman received under the pre-2004 rules.

her own record from 1 January 2004 to the week in which she reaches 65. Then, for each year from the year in which she reached 20 to the end of 2003, she can be allocated 62% of the average number of contributions that appear on her husband's contribution record.

58. If the highest of these three rates is less than the amount of the addition that her husband had been receiving in respect of her when she was under 65, the woman is awarded a pension equivalent to that addition. With the abolition of the married man’s pension addition, this guaranteed minimum entitlement will no longer be available to married women reaching 65 after 31 December 2013. Instead, they will receive the highest of the three rates set out above.

59. This change should not be confused with the abolition of widows’ pension and its replacement with a time-limited bereavement allowance with effect from 1 January 2004. This was a separate proposal within the Department’s package of gender equality reforms and, in June 2011, was the subject of an unsuccessful Requête (Billet d’État XI of 2011) which proposed the introduction of a compensation scheme for persons who had been affected by the change. The Department has not changed its position on the matter.

Social insurance contributions

60. As described in paragraph 23, the Department is recommending an increase of 0.5% in the employers’ contribution rate, taking it from 6.5% to 7.0% of earnings.

61. The current contribution rates and the proposed contribution rates for 2014 are shown in table 11 below.

Table 11 – Current contribution rates and proposed contribution rates for 2014

Contribution rates for employed persons	**2014**	**2013**
Employer	7.0%	6.5%
Employee	6.0%	6.0%
Total	13.0%	12.5%

Contribution rates for self-employed persons	10.5%	10.5%

Contribution rates for non-employed persons under 65	9.9%	9.9%

Contribution rates for non-employed persons over 65	2.9%	2.9%

2014 upper earnings limits

62. In accordance with the States Resolutions concerning the future financing of the contributory social security schemes (Billet d'État XXI of 2009) the upper earnings and income limits for employed people, self-employed people and non-employed people are to be incrementally increased from 1 January 2010 to match the upper earnings limit for employers. 2014 represents the final year of a five year phasing-in period and sees all upper limits aligned.

2014 upper earnings limit for employers

63. The Department recommends that, from 1 January 2014, the upper earnings limit for the employers' contribution be increased by approximately 2.1%, from £129,792 per year to £132,444 per year. For people paid weekly, this means an increase of £51 per week, taking it from £2,496 per week to £2,547 per week. For people paid less frequently than weekly, this means an increase of £221 per month, taking it from £10,816 per month to £11,037 per month.

2014 upper earnings limit for employed people

64. As the fifth and final step to align the upper earnings limit with that applicable to employers, the Department recommends that, from 1 January 2014, the upper earnings limit for employed people should increase from £119,340 per annum to £132,444 per annum. For people paid weekly, this means an increase of £252 per week, taking it from £2,295 per week to £2,547 per week. For people paid less frequently than weekly, this means an increase of £1,092 per month, taking it from £9,945 per month to £11,037 per month.

65. The effect of the proposed new upper earnings limit on employees who pay a contribution at the new upper earnings limit and the effect of the proposed new upper earnings limit *and* the proposed 0.5% increase in the employers' contribution rate on employers who pay a contribution at the new upper earnings limit are set out in table 12 below:

Table 12 - Maximum 2014 contributions for employees and employers (2013 in brackets)

	Employer	Employee	Total
Contribution rate	7.0%	6.0%	13.0%
	(6.5%)	(6.0%)	(12.5%)
Upper weekly earnings limit	£2,547	£2,547	
	(£2,496)	(£2,295)	
Maximum payable per week	£178.29	£152.82	£331.11
	(£162.24)	(£137.70)	(£299.94)

66. For an employee with earnings of £132,444 per year, the additional contribution is £15.12 per week, which equates to £2.16 per day. For their employer, the additional contribution is £16.05 per week, which equates to £2.29 per day.

Number of contributors paying at upper earnings limits

67. In 2013, with an upper earnings limit of £119,340 per year, there were 3.5% of employed persons and 13.5% of self-employed persons paying on earnings at or above that level.

68. In 2013, with an upper earnings limit of £129,792 per year for employers, contributions were being paid at or above that level of earnings in respect of 3% of employees.

2014 lower earnings limit for employed people

69. The Department recommends that the lower earnings limit be increased from £125 per week to £128 per week. The corresponding monthly limit would be £554.67.

70. The effect of the foregoing changes on a contribution at the lower earnings limit is set out in table 13 below:

Table 13 - Minimum 2014 contributions for employees and employers (2013 in brackets)

	Employer	**Employee**	**Total**
Contribution rate	7.0%	6.0%	13.0%
	(6.5%)	(6.0%)	(12.5%)
Lower weekly earnings limit	£128	£128	
	(£125)	(£125)	
Minimum payable per week	£8.96	£7.68	£16.64
	(£8.12)	(£7.50)	(£15.62)

2014 upper and lower earnings limit for self-employed people

71. As the fifth and final step to align the upper earnings limit with that applicable to employers, the Department recommends that the upper earnings limit for self-employed persons be increased from 1 January 2014 from £119,340 to £132,444 per year.

72. The effect of the proposed new upper earnings limit on self-employed people who pay a contribution at the upper earnings limit is set out in table 14 overleaf.

Table 14 - Maximum 2014 contributions for self-employed persons (2013 in brackets)

Annual earnings from self-employment	Contributions per week
	10.5%
£132,444 or more	£267.43
(£119,340 or more)	(£240.97)

73. For a self-employed person with earned income of £132,444 per year, the additional contribution is £26.46 per week, which equates to £3.78 per day.

74. Self-employed people who have applied to pay earnings-related contributions, and whose earned income from self-employment is less than £132,444 per year, will pay less than the maximum contribution.

75. The proposed increase in the lower earnings limit from £125 to £128 per week would mean that the lower annual earnings limit for self-employed persons in 2014 would be increased from £6,500 to £6,656 (£128 x 52). The minimum self-employed (Class 2) contribution in 2014 would be £13.44 per week (£13.12 in 2013).

2014 upper and lower income limit for non-employed people

76. As the fifth and final step to align the upper income limit with that applicable to employers, the Department recommends that the upper income limit for non-employed persons be increased from 1 January 2014 from £119,340 to £132,444 per year.

77. As with the self-employed, non-employed contributors are liable to pay non-employed, Class 3 contributions, at the maximum rate unless application is made to the Department and authorisation given for the release of the relevant information by the Director of Income Tax. This allows an income-related contribution to be calculated.

78. There are two categories of non-employed contributions:

- Full percentage rate contributions to cover social insurance, health service and long-term care insurance liabilities. This is the rate of contribution that non-employed adults under the age of 65 are liable to pay, based on their personal income. The contribution rate is 9.9% of income, after the deduction of an allowance, up to the upper income limit;

- Specialist health insurance and long-term care insurance contributions. These contributions, which are payable by people aged 65 and over, go towards funding the specialist health insurance scheme and the long-term care insurance scheme. The contribution rate is 2.9% of income, after the deduction of an allowance, up to the upper income limit.

79. The Department recommends that the lower income limit at which non-employed contributions become payable be increased from £16,250 per year to £16,640 per year from 1 January 2014.

Non-employed person's allowance

80. From 2010, the Department introduced an allowance for non-employed people, which is subtracted from their annual income figure with liability being calculated on the balance. The Department recommends increasing the allowance from £6,895 to £7,059.

81. Table 15 shows the minimum and maximum weekly contributions payable in 2014 by non-employed people. People with income at some point between the upper and lower income limits will pay pro-rata.

Table 15 - 2014 non-employed weekly contributions (2013 in brackets)

Annual Income	**Full rate (under 65)**	**Specialist health and long-term care only (over 65)**
	9.9%	2.9%
Less than £16,640	zero	zero
(Less than £16,250)	(zero)	(zero)
£16,640	£18.24	£5.34
(£16,250)	(£17.81)	(£5.22)
£132,444	£238.71	£69.93
(£119,340)	(£214.08)	(£62.71)

Voluntary contributions

82. As shown above, where a non-employed person's annual income is below £16,640, that person will be exempted from the payment of contributions. However, this could affect old age pension entitlement. A voluntary contribution which counts towards old age pension can be paid by or on behalf of non-employed people, resident in Guernsey and under pension age, with personal income below the lower income limit.

83. The voluntary contribution in 2013 is £17.81 per week. The rate is calculated by applying the social insurance element of the non-employed contribution rate, being 5.7% of the total 9.9%, to the lower income limit. With a

proposed lower income limit of £16,640 per annum in 2014, the voluntary contribution will increase to £18.24 per week.

Overseas voluntary contributions

84. People living outside of the Island are able to pay contributions in order to maintain their entitlement to old age pension. The rate payable in 2013 is £85.32 per week for the non-employed and £94.32 for the self-employed. It is recommended that, from 1 January 2014, the overseas voluntary contribution should be increased in line with the general 2.1% increase. This means that from 1 January 2014 the voluntary overseas contributions would rise from £85.32 to £87.11 per week for non-employed people and from £94.32 to £96.30 per week for self-employed people.

Special (minimum) rate Class 3 contributions

85. A special rate non-employed contribution is payable by insured persons who would normally rely upon employed contributor's employment for their livelihood, but have a small gap in their record where they were neither employed nor receiving an unemployment contribution credit. The rate of this contribution is aligned with the rate of the voluntary contribution. The special rate Class 3 contribution will, therefore, be £18.24 per week in 2014.

Maternity and paternity provisions and the United Nations Convention on the Elimination of all forms of Discrimination Against Women (CEDAW)

86. Policy Council recommendations on maternity and paternity provisions were debated at the February 2012 States Meeting (Billet d'État IV of 2012). States Members resolved, among other things, to direct the Social Security Department to report back to the States, at the same time it reports on funding other benefits, with proposals for funding and requesting the preparation of the necessary legislation to provide for:-

- changes to the maternity grant to make it available to all new mothers;
- changes to maternity allowance to split it into a maternal health allowance and a new born care allowance;
- a new adoption grant at the same rate as maternity grant;
- a new benefit of parental allowance.

87. The enhanced package of maternity and paternity benefits will cost in the order of an additional £1.9m per annum (2012 levels) and require an increase in social insurance contributions of up to 0.2%.

88. Notwithstanding the proposed interim increase of 0.5% in the employers' contribution rate, the Department is of the general view that the requirement for increased contributions for maternity and paternity benefits should not be dealt with in isolation of proper resolution of the long-term funding issues for the sustainability of the Guernsey Insurance Fund. Instead, it will be considered in the wider context of the Personal Tax, Pensions and Benefits Review, referred to in paragraphs 21 to 22.

Estimated operating surplus/deficit on Guernsey Insurance Fund

89. Taking into account all of the foregoing, including the proposed revised rates of contributions and benefits, for the Guernsey Insurance Fund, it is estimated that:

    1) there will be an operating deficit in 2013 in the order of £14.42m; and

    2) there will be an operating deficit in 2014 in the order of £11.35m, assuming that the States approve the proposed 0.5% increase in the employers' contribution rate. Without that measure, the estimated deficit will be £16.45m.

90. The estimated operating deficits in 2013 and 2014 will be covered by investment income and reserves.

PART II
HEALTH SERVICE BENEFITS

91. The health service benefits and administration, costing £35.80m in 2012, were financed by £35.82m from contributions allocated to the Health Service Fund and £4.30m from the States' grant from General Revenue. There was an operating surplus, before investment income, of £4.32m.

Medical Benefit Grants

92. The total benefit expenditure on consultation grants in 2012 was £3.65m. This represented an increase of around 1.2% on the 2011 cost. The consultation grants remained unchanged at £12 towards a consultation with a doctor and £6 towards a consultation with a nurse.

93. The Department will not be recommending any change in the level of the consultation grants for 2014.

Pharmaceutical Service

94. Prescription drugs cost a total of £15.81m in 2012, before netting off the prescription charges paid by patients. This was a decrease of 4.8% over the previous year.

95. The total cost to the Health Service Fund of the drugs dispensed was reduced by £1.87m collected in prescription charges.

96. The number of items prescribed under the pharmaceutical service increased by 1.6% in 2012 to 1.49 million items, significantly below the five year and ten year average increases of 3.8% and 4.9% respectively.

Prescription charge

97. The prescription charge for 2013 is £3.20 per item. For a number of years the States have approved annual increases of 10p in the charge. The Department recommends the same increase this year, with a charge of £3.30 per item effective from 1 January 2014.

98. However, in light of the average cost of prescription medicines in Guernsey (£10.30 per item in 2012 including the cost of the drug and the dispensing fee) and the significantly higher prescription charge in England (£7.85 per item from 1 April 2013), the Department intends to review the level of the prescription charge with a view to possibly increasing it in 2015 by more than the usual annual rise of 10p.

99. The availability of free prescriptions to all persons over the age of 65 will also be reviewed, along with other universal benefits (i.e. family allowance and free TV licences for all persons over the age of 75 and over 65s in receipt of supplementary benefit), as part of the Personal Tax, Pensions and Benefits Review.

Specialist Health Insurance Scheme

100. The cost of the specialist health insurance scheme, which funds the services provided through the Medical Specialist Group ('MSG'), was £14.10m in 2012 and is expected to cost £14.65m in 2013.

101. The contract with the Guernsey Physiotherapy Group cost £1.90m in 2012 and is expected to cost £1.98m in 2013.

102. The Contract Monitoring and Political Assurance (COMPASS) Group, which includes the Ministers, Deputy Ministers, Chief Officers and Contract Managers of the Social Security Department and the Health and Social Services Department ('HSSD') and representatives of the MSG and the Guernsey Physiotherapy Group ('GPG'), meets regularly to review adherence to and performance against contractual obligations and to consider potential changes to the scope and resources permitted under the contracts with the MSG and the GPG. Fee reviews for both contracts were completed in 2012 with all parties benefiting from agreed resource changes and improved value for money. Both contracts are due to expire in 2017. The Department and the HSSD will engage with both Groups and other stakeholders in helping to

shape a robust and cost effective future model of healthcare in Guernsey that includes specialist and physiotherapy care.

103. The Department and the HSSD will continue to work closely together to support the principles agreed in the 2020 vision.

Costs of visiting medical specialists

104. At present, the majority of specialist medical care[7] on Guernsey is provided by the MSG using private and HSSD facilities, together with specialist nurses and support staff employed by the HSSD. This is funded from the Guernsey Health Service Fund, administered by the Social Security Department, as "specialist medical benefit" [see paragraph 100 above].

105. The HSSD directly employs a small number of specialist doctors in psychiatry, radiology, pathology and sexual health. In addition, the HSSD funds an increasing number of UK-based specialists to travel to Guernsey to provide a wide range of treatments where the MSG does not offer services on Island.

106. The HSSD also funds all off-Island specialist medical care (predominantly delivered by Southampton University Hospital Trust, together with a number of other partner healthcare providers with particular specialties). The Social Security Department covers patients' return travel costs to appointments through the Travelling Allowance Grant, currently funded from the Guernsey Insurance Fund, although, in future, to be funded from the Guernsey Health Service Fund [see paragraph 115].

107. The rationale for funding the services provided by the MSG through the Guernsey Health Service Fund was, at the time, very clear. However, the funding and responsibility for providing the range of specialist medical care outlined above has become increasingly blurred and its operation unclear. The system for funding specialist medical care has not kept pace with the changing nature of medical services. These issues will be considered as part of the forthcoming Health System Review in which the Department will be actively involved, particularly in relation to funding.

108. In the Benefit Uprating Report for 2011 (Billet d'État XX of 2010), the Department signalled its intention to transfer the cost of visiting UK specialists from the HSSD General Revenue budget to the Guernsey Health Service Fund. However, as there was insufficient surplus in the Guernsey Health Service Fund to transfer the funding in 2011, the Department did not make a specific recommendation to do so at that time.

[7] "Specialist medical care" refers to secondary care (that is, health services which can only be accessed by a referral from a GP or other medical practitioner) provided by doctors with specialist training.

109. Funding both healthcare and health travel costs from the same budget will assist rational decision-making regarding the cost of bringing over medical specialists versus the cost and inconvenience of sending patients off-Island. As the majority of on-Island healthcare is already funded from the Guernsey Health Service Fund, it will make sense to fund visiting medical specialists from this budget rather than from the HSSD's General Revenue budget.

110. The services provided by visiting medical specialists would also fit well within the definition of "specialist medical benefit"[8] under the Health Service (Benefit) (Guernsey) Law, 1990. The conditions under which entitlement to specialist medical benefit currently arise are limited to consultations, treatments, procedures and entitlements provided by an approved medical practitioner or nurse under the MSG contract following referral by a medical practitioner. Those conditions could be extended by Ordinance under the Health Service (Benefit) (Guernsey) Law, 1990 to include consultations, treatments, procedures and entitlements provided by approved visiting medical specialists (not paid for under the MSG contract) following referral by a medical practitioner.

111. The cost of visiting medical specialists was approximately £700,000 in 2012. The surplus in the Guernsey Health Service Fund is now considered to be sufficient to transfer funding responsibility. As at 31 December 2012, the value of reserves in the Guernsey Health Service Fund was £83.0 million, an annual increase of £10.8 million from the previous year's balance.

112. The Department recommends that an Ordinance is made under the Health Service (Benefit) (Guernsey) Law, 1990 to amend the conditions under which entitlement to specialist medical benefit arises in order to allow the Department to fund the costs associated with visiting medical specialists from the Guernsey Health Service Fund.

113. If approved by the States, this transfer, in itself, would see no net saving to public expenditure as a whole, but it would reduce General Revenue expenditure by in the order of £700,000 [2012 terms].

114. Control mechanisms will be put in place to ensure that costs are appropriately managed and monitored.

[8] *"Specialist medical benefit, in relation to any person, comprises the provision of all such specialist consultations, treatment, procedures and ancillary entitlements as may be prescribed and as may be requisite in the case of that person for the diagnosis, treatment, management, prevention or control of disease or otherwise by reason of that person's condition."* [Section 5A(2) of the Health Service (Benefit) (Guernsey) Law, 1990, inserted by Section 2 of the Health Service (Specialist Medical Benefit) Ordinance, 1995].

Transfer of Travelling Allowance Grant from Guernsey Insurance Fund to Guernsey Health Service Fund

115. In the Department's Benefit Uprating Report for 2011 (Billet d'État XX of 2010) the States resolved that the provisions from Travelling Allowance Grants should move from the Guernsey Insurance Fund to the Guernsey Health Service Fund, with appropriate updating of provisions. Although work has commenced within the Department, this has not been given high priority. There is a need for consultation on the scope of the legislation and on the travel costs to be covered under the updated legislation.

Nurse prescribing

116. In September 2011, the States resolved, following consideration of the Department's Benefit Uprating Report for 2012 (Billet d'État XV of 2011), that the Health Service (Benefit) (Guernsey) Law, 1990 and related subordinate legislation be amended to allow community nurses employed by the HSSD, whose names are held on the Nursing and Midwifery Council's register, to be empowered to issue medical prescriptions for the supply of wound management products, as listed in section 13.13 of the Limited List. This legislation has been drafted and is expected to be laid before the States for consideration at their November 2013 meeting, entering into force on 1 January 2014.

Pilot programme for mental health service in primary care practices

117. The Department has previously reported on a pilot scheme known as the Primary Care Mental Health and Wellbeing Service ('PCMHWS'). The two year pilot was expected to conclude in August 2013, however, the Department has extended the pilot for a further six months in order to assess fully the impact of the service and, in particular, whether it is having a sustainable effect on retaining people in the workplace.

118. The HSSD administers the scheme and during the first year of operation provided treatment to over 1,000 individuals, with an overall 'recovery rate'[9] of 50%. This compares well with the mean recovery rate achieved through the UK's Improving Access to Psychological Therapies ('IAPT') service, on which the PCMHWS is modelled, which reported a mean recovery rate of 41% in a review of the first million patients. Feedback on the service from both patients and GPs has been very positive to date.

119. The HSSD has conducted analysis on data for all discharged patients from the commencement of the service on 5 September 2011 to 2 April 2013 (660 referrals). This analysis showed that the vast majority (81%) of people

[9] 'Recovery rate' refers to the change in the number of people who were scoring above the clinical cut-off on either the validated anxiety or depression symptom measures pre-treatment as compared to those scoring above the clinical cut-off range on either measure post-treatment.

referred to the service were not claiming benefit at the time of referral, with only 16% claiming either sickness or invalidity benefit. The Department acknowledges that this is to be expected of a service which is aimed at providing an early intervention/prevention function. At three months post-discharge date, 75% of the 103 patients who were originally claiming sickness or invalidity benefit at the time of referral were no longer claiming sickness or invalidity benefit. This was maintained at the six month and one year follow-up periods suggesting that the short-term gains in people ceasing to claim sickness benefit, or treatment effectiveness of the service, are maintained in the longer-term. However, without a comparison control group, it is difficult to make firm conclusions about treatment effectiveness as some people who were treated may have made a natural or 'spontaneous' recovery from their anxiety or depression difficulties.

120. The HSSD reports that treatment through the PCMHWS appears to have had a preventative effect, with 99% of the 557 people who were not claiming sickness or invalidity benefit at the time of referral, not claiming these benefits for mental health related disorders six months after their discharge from treatment.

121. Arguably, the full extent of the potential impact on long-term benefit claimancy, particularly with respect to slowing down the growth of short-term sickness benefit claims into long-term invalidity benefit claims, will take some time to be realised. Hence, these early trends are noteworthy.

122. Provided that the forthcoming full impact assessment of the PCMHWS demonstrates that these initial positive trends have continued, the Department and the HSSD will develop a business case for the future financing of the Service on a permanent basis. As the pilot is due to end in February 2014, a decision on funding will be required in sufficient time in order that appropriate measures can be taken regarding referrals to the service should it cease. If the PCMHWS is funded by the Department, it will be funded from the Guernsey Health Service Fund through the introduction of a new benefit under the Health Service (Benefit) Guernsey Law, 1990.

Financing of Guernsey Health Service Fund

123. The actuarial review of the Guernsey Health Service Fund for the years 2006 to 2009, inclusive, appeared in the appendix to Billet d'État XV of 2011. The review indicated that the Guernsey Health Service Fund will maintain an operating surplus, with the reserves of the Fund increasing to more than two years' annual expenditure by 2014. In fact, the reserves of the Fund increased to two years' annual expenditure by 2010 and, by 2012, expenditure cover had increased to 2.3 years. Based on current assumptions, there is, therefore, no need for any increases in the rates of contributions to the Guernsey Health Service Fund at this time. The longer-term position will

be influenced by the progression of the developments mentioned in the foregoing paragraphs.

PART III
LONG-TERM CARE INSURANCE

124. The Long-term Care Insurance Scheme pays benefits to assist with fees in residential and nursing homes. The Department is recommending increases of 2.1% in the benefit rates.

125. Contribution income to the Long-term Care Insurance Fund was £17.59m in 2012. With benefit and administration expenditure of £16.79m for the year, the Fund had an operating surplus of £0.80m.

Co-payment by person in care

126. It is a condition of entitlement to benefit under the long-term care insurance scheme that the person in care should make a co-payment. The 2013 co-payment is £182.98 per week. The Department recommends a co-payment of £186.83 per week from 6 January 2014.

127. It should be noted that the co-payment to the long-term care insurance scheme also sets the level of fees to be charged for accommodation in the States-run homes including the Castel and King Edward VII hospitals, Maison Maritaine and Longue Rue House, as well as the long-stay beds in the Mignot Memorial Hospital, Alderney.

Nursing care benefit

128. The maximum nursing care benefit, which also applies to the Guernsey Cheshire Home, is currently £756.98 per week. The Department recommends that it should be increased to £772.87 per week from 6 January 2014.

Residential care benefit

129. The maximum residential care benefit is currently £405.44 per week. The Department recommends that it should be increased to £413.98 per week from 6 January 2014.

Elderly Mental Infirm (EMI) benefit

130. The maximum EMI rate of benefit is currently £534.24 per week. The Department recommends that it should be increased to £545.44 per week from 6 January 2014.

Respite care benefit

131. Persons needing respite care in private sector residential or nursing homes are not required to pay a co-payment. The long-term care fund pays instead. This is to acknowledge the value of occasional investment in respite care in order to allow the person concerned to remain in their own home as long as practicable. It also acknowledges that persons having respite care also continue to bear the majority of their own household expenditure. The respite care benefits, therefore, are the sum of the co-payment and the residential care benefit or nursing care benefit, as appropriate. The Department, therefore, recommends a nursing care respite benefit of up to £959.70 per week, an EMI rate of up to £732.27 per week and a residential care respite benefit of up to £600.81 per week from 6 January 2014.

Financing of Long-term Care Insurance

132. The actuarial review of the Long-term Care Insurance Fund for the years 2006 to 2009, inclusive, and projections to 2070, appeared in the appendix to the Billet d'État XV of 2011. The review showed that the current rate of contribution for the Long-term Care Insurance Fund, which is 1.3% of earnings for an employed person, is unsustainable. Based on the assumptions used in the review, if the rate remained unchanged, the reserves of the Fund would be exhausted by around 2027.

133. The review indicated that, on the pay-as-you-go basis, the current contribution rate of 1.3% for employed persons would have to increase steadily to reach about 2.0% by 2028, 3.0% by 2040 and levelling off at 3.5% by around 2050.

134. The actuarial review included assumptions that the scope of the long-term care benefits is not changed and that benefit expenditure increases proportionate to the increases in the older age cohorts. For the purposes of the periodic review, those assumptions are a practical necessity. However, it is highly unlikely that the number of residential and nursing care beds in Guernsey and Alderney will in reality increase in direct proportion to the increased numbers of people in the older age groups. It is far more likely that there will be a shift of emphasis towards care in the person's own home and new models of delivery including extra-care housing.

135. Following the Resolution of the States on the joint report from the Housing Department and the HSSD concerning the provision of extra-care housing at Maison Maritaine and Longue Rue House (Billet d'État VIII of 2011), a working party chaired by the Minister of the Treasury and Resources Department examined the short-term and long-term financing options for extra-care housing. The Working Party concluded its work, to the satisfaction of the Treasury and Resources Department, as far as the business case for the redevelopment of Maison Maritaine and Longue Rue House was concerned and has disbanded. The Working Party noted, however, that further work

was required and that the Housing Department and the HSSD, in conjunction with the Social Security and Treasury and Resources Departments would determine how to progress the financial modelling as part of the Supported Living and Ageing Well Strategy (SLAWS). Responsibility for progressing SLAWS currently rests with the Social Policy Group. A States Report is currently being drafted but progress has been slowed because of competing demands on the Departments contributing to SLAWS.

136. The challenge of providing sustainable funding for the provision of long-term care to meet the needs of the ageing population will also be considered as part of the Personal Tax, Pensions and Benefits Review [see paragraphs 21 to 22] currently being progressed by the Treasury and Resources and Social Security Departments.

PART IV
NON-CONTRIBUTORY SERVICES FUNDED FROM GENERAL REVENUE

137. For the non-contributory benefits contained in this part of the report, which are funded entirely from General Revenue, the Department recommends general increases of 2.1%, with some small variations for roundings.

Supplementary benefit

138. Supplementary benefit expenditure amounted to £19.77m in 2012. The expected outturn for 2013 is £20.98m.

139. At 1 June 2013, there were 2,410 active supplementary benefit claims as set out in table 16 overleaf. Most of the increase since 2012 relates to jobseekers and the small increase in single parents may also be down to unemployment levels. These claims also support 1,540 dependants, thereby giving a total supplementary benefit population of 3,950.

Table 16 - Supplementary benefit claims and expenditure - 2012 and 2013

Classification	Claims at 1 June 2013	Claims at 2 June 2012	2012 expenditure	2013 probable outturn	2014 budget
Pensioner	714[10]	717	£2.29m	£2.35m	£2.50m
Incapacitated	513	538	£4.18m	£4.20m	£4.30m
Single parent	453	440	£5.26m	£5.52m	£5.75m
Jobseeker or low earner	421	394	£3.04m	£3.40m	£3.55m
Severe disability	208	214	£1.76m	£1.80m	£1.85m
Incapable of self-support	66	56	£0.55m	£0.70m	£0.71m
Carer	28	20	£0.19m	£0.27m	£0.27m
Pregnant	3	4	£0.06m	£0.06m	£0.06m
Prisoner's spouse	4	1	£0.03m	£0.06m	£0.07m
Partner in hospital	0	0	£0.00m	£0.00m	£0.00m
Total (excluding dependants)	**2,410**	**2,384**	**£17.36m**	**£18.36m**	**£19.06m**
Special Grants (e.g. medical, disability, funeral) and other miscellaneous expenses			£2.41m	£2.62m	£2.63m
Total			**£19.77m**	**£20.98**	**£21.69m**

140. The Department has, for many years, kept staffing levels as low as reasonably practicable in order to discharge its obligations. However, since 2009, the Department has, through its annual Benefit Uprating Report, explained the resourcing difficulties experienced in relation to the extra work in the supplementary benefit section arising from higher levels of unemployment. This resourcing constraint generally leads to priority being given to paying the benefits due and insufficient time is given to interviewing people about their job-finding efforts and assisting that endeavour.

141. The Department set out detailed work incentivisation proposals in its March 2012 States Report on the modernisation of the supplementary benefit scheme (Billet d'État V of 2012). While States Members approved all these proposals, approval was not given to funding the additional staff required to implement and deliver these new work-related elements. The Department is currently preparing a business case to implement these proposals as an FTP project. The aim of this project and the anticipated savings as a result of carrying out this project is summarised in paragraph 39 of this report. Subject to securing the necessary funding and approval of the necessary amendments to the supplementary benefit legislation, it is hoped that the Department will be able to commence implementation in early 2014.

142. Another FTP project which has introduced a new incapacity claim management process into the supplementary benefit system, concluded in

[10] Includes 167 pensioners covered solely for their medical expenses.

June 2013. At the outset of the project the targeted net savings were expected to be £188,000. The Department is pleased to report that total net savings of £565,000 were achieved by the end of the project. This new claims management process has now been incorporated into the Department's normal working practice.

Supplementary benefit requirement rates

143. The Department recommends supplementary benefit requirement rates, to take effect from 10 January 2014, as set out in tables 17 and 18 below and overleaf.

Table 17 – Proposed long-term supplementary benefit requirement rates for 2014

Long-term supplementary benefit (after payment of short-term rates for 6 months)	**2014**	**2013**
Married couple	£241.00	£236.04
Single householder	£166.74	£163.31
Non-householder**:**		
18 or over	£129.43	£126.77
16 - 17[11]	£70.26	£68.81
Member of a household -		
18 or over	£129.43	£126.77
16 - 17	£109.63	£107.38
12 - 15	£67.83	£66.43
5 – 11	£49.17	£48.16
Under 5	£36.24	£35.49

[11] Varied upwards in relation to single parents and people with a significant disability.

Table 18 – Proposed short-term supplementary benefit requirement rates for 2014

Short-term supplementary benefit rates (less than 6 months)	2014	2013
Married couple	£195.33	£191.31
Single householder	£135.65	£132.86
Non-householder:		
18 or over	£103.27	£101.15
16 - 17[12]	£70.26	£68.81
Member of a household -		
18 or over	£103.27	£101.15
16 -17	£87.69	£85.89
12 - 15	£54.32	£53.20
5 – 11	£39.45	£38.64
Under 5	£28.73	£28.14

A rent allowance, on top of the above short-term or long-term rates, will apply to people living in rented accommodation.

Benefit limitation - community

144. The benefit limitation, currently £500.00 per week, is the maximum level of income that a person in receipt of supplementary benefit is allowed from all sources, excluding family allowances and the £30 earnings disregard.

145. Part V of this report, regarding the modernisation of the supplementary benefit scheme, includes proposals which, if approved, would see the benefit limitation increased to £600.00 per week from January 2015 and £650.00 per week from January 2016, as part of a package of proposals intended to facilitate the removal of the Housing Department's rent rebate scheme. Ahead of these step changes, no change to the level of the benefit limitation is proposed for 2014.

Benefit limitation - residential homes

146. Notwithstanding the existence of the long-term care insurance scheme, there needs to remain a benefit limitation applicable to a person residing in a residential home who does not satisfy the residence requirements for long-term care benefit and may, therefore, need to rely on financial support from supplementary benefit. The benefit limitation is currently £501.00 per week. The Department recommends an increase to £512.00 per week from 10 January 2014. It should be noted that this particular benefit limitation, and that in the following paragraph, are very seldom called into effect.

[12] Varied upwards in relation to single parents and significant disability.

Benefit limitation - nursing homes, elderly mental infirm residents (EMI) and Guernsey Cheshire Home

147. Being necessary for the reason explained in paragraph 146, the Department recommends that the benefit limitation applicable to a person residing in a nursing home or a residential home with EMI care needs or the Guernsey Cheshire Home be increased from £720.00 per week to £735.00 per week from 10 January 2014.

Personal allowance for residents of residential or nursing homes

148. The amount of the personal allowance for supplementary beneficiaries in residential or nursing homes is currently £28.70 per week. It is intended to allow modest purchases of, say, newspapers, confectionery, toiletries, small family presents and so on. The Department recommends that the personal allowance be increased to £29.30 per week from 10 January 2014.

Personal allowance for Guernsey residents in UK hospitals and care homes

149. The HSSD pays for Guernsey and Alderney residents to be placed in UK hospitals and specialized institutions if their mental or physical health needs cannot be met on-Island. While the HSSD meets the cost of accommodation and care, residents are expected to pay for items of personal expenditure from their own resources. Residents who cannot afford these things can apply to the Social Security Department for a personal allowance.

150. There is a need for this particular personal allowance to be higher than the rate which applies in Guernsey residential and nursing homes, because the people living temporarily off-Island tend to be a much younger age group, more active and with more opportunities for using a personal allowance in the course of their supervised activities and outings.

151. The personal allowance is currently £48.34 per week and the Department recommends that the allowance be increased to £49.36 per week from 10 January 2014.

Supplementary fuel allowance

152. A supplementary fuel allowance is paid from General Revenue to all householders in receipt of supplementary benefit for 27 weeks from the last week in October until the last week in April of the year following. The fuel allowance was £27.93 per week for the 2012 to 2013 period.

153. In the year to June 2013, the cost of fuel, light and power increased by 7.4%. The Department, therefore, recommends an increase of 7.4% in the fuel allowance, taking it to £30.00 per week for the winter of October 2013 to April 2014.

154. In light of the fact that the payment period commences before the States has debated the rate proposed in this report, the Department will make the first payment on the last Friday in October at the proposed rate, ahead of the October States debate. In order to regularise this for future years it is proposed that the Department is given the authority to do this as a matter of course as and when necessary.

155. The fuel supplement will cost in the region of £1.06m over the 27 week payment period referred to above. However, the Department has identified the winter fuel allowance as an issue that might be reviewed as part of the supplementary benefit modernisation project. In particular, the Department is keen to explore whether its flat rate for all strategy still holds good given that claimants' fuel bills vary depending, in part, on whether their accommodation is energy efficient.

Maximum rent allowances

156. In October 2012, following consideration of the Department's Benefit Uprating Report for 2013 (Billet d'État XXI of 2012), the States agreed that, from 4 January 2013, maximum rent allowances[13] be introduced for new claims from single people and couples with no children (tenancy group 1) and for people living in shared accommodation (tenancy group 5). Maximum rent allowances are upper limits of rental support, rather than fixed amounts given to all people within the two groups. The actual rent allowance paid never exceeds the rent of the property occupied and indeed, in accordance with legislation, the Administrator often awards a lower rent allowance if he considers that this is reasonable having regard to the circumstances of the claimant and the nature and standard of the accommodation.

157. The maximum rent allowances for 2013 are set out in table 19 below. These rates are based on the highest rents charged in social housing for appropriately sized properties.

Table 19 – Maximum rent allowances for 2013

Tenancy Group	**Description**	**Maximum rent allowance – 2013**
Group 1	Single or couple with no children	£196.00
Group 5	Living in shared accommodation	£155.52

158. It is proposed that the maximum rent allowances for people in tenancy groups 1 and 5 be increased in 2014 in line with rents charged by the Housing Department or the Guernsey Housing Association once these have been set.

[13] Maximum rent allowances are upper limits, rather than fixed amounts given to all people within the two groups.

159. It is further proposed, in Part V of this report (paragraphs 393 to 399), that maximum rent allowances for families (i.e. tenancy groups 2, 3 and 4) be introduced from January 2015.

Provision of supplementary benefit for residents of the new extra care housing developments

160. In May 2011, the States agreed *inter alia* that the Housing Department's two residential homes – Longue Rue House and Maison Maritaine – should be replaced by extra care housing to be built and managed by the Guernsey Housing Association; and in April 2012, the Treasury and Resources Department gave the necessary approvals to enable development work to commence.

161. In accordance with the business case for the projects approved by the Treasury and Resources Department, there will be additional costs to supplementary benefit arising from these two developments, which are to be known as La Nouvelle Maraitaine and Le Grand Courtil.

162. The first occupants of the new flats at each scheme will comprise most of the existing residents of Maison Maritaine and Longue Rue House, some persons with a learning disability currently accommodated in residential homes by the HSSD, plus some persons living in the community whose needs can be met by extra care housing.

163. The primary reason for the additional supplementary benefit expenditure is because the residents of Maison Maritaine and Longue Rue House currently pay a heavily subsidised fee to the Housing Department for their care, accommodation, food, etc. However, upon becoming tenants in extra care housing they will be responsible for paying rent and a service charge for their accommodation to the Guernsey Housing Association. They will also be responsible for paying for their food and other day-to-day expenses associated with independent living. Based on an initial assessment of their means, more of the existing residents of the two care homes are anticipated to require supplementary benefit assistance in extra care housing. (The care and support service to the extra care housing tenants is to be provided by the Housing Department and funded from its General Revenue Budget.)

164. The 51 flats at La Nouvelle Maraitaine are due to be completed by June 2014, and their occupants will be moving in progressively from August to October 2014. At Le Grand Courtil, it is planned that 57 flats will be completed by October/November 2014. Some residents may move in before Christmas 2014, but more likely at least half will be accommodated in January/February 2015. A further six flats are due to be let around March 2015.

165. Arising from the transfer of residents from Housing and Health and Social Services' accommodation, it is estimated that the net additional cost to

supplementary benefit will be in the order of £88,000 in 2014. The Social Security Department will be recompensed for this anticipated additional expenditure and, at the time of writing, discussions are taking place between the Treasury and Resources, Housing, Social Security and Health and Social Services Departments regarding the appropriate budget transfers.

166. As part of its work on the SLAWS, the Policy Council will be working with the aforementioned Departments on the broader question of how extra care housing should be funded in the future, but it is unlikely that any conclusions will be reached prior to the opening of La Nouvelle Maraitaine and Le Grand Courtil.

New capital limits for medical cover

167. People in receipt of supplementary benefit may have their medical and paramedical expenses paid through supplementary benefit if they have capital resources of less than £3,000 if they are a single person (including single parents) or £5,000 if they are a couple. The types of medical expenses which may be covered through supplementary benefit include primary medical care, prescription charges, physiotherapy, osteopathy, chiropody, emergency dental care and optical care including the provision of glasses, etc.

168. These capital limits have remained unchanged since 2001, in respect of the £3,000 limit for single persons, and since 2003, in respect of the £5,000 limit for couples. The Department is of the view that the capital limits are too low for pensioners and single parents and intends to increase them, as set out in table 20, with effect from 1 January 2014:

Table 20 – Current and proposed new capital limits for medical cover

	Proposed new capital limits	**Current capital limits**
Single persons: - Under 65 - Over 65	 £3,000 **£5,000**	 £3,000 £3,000
Couples: - Under 65 - Over 65	 £5,000 **£7,000**	 £5,000 £5,000
Families: - Single adult with child/children - Couple with child/children	 **£5,000** £5,000	 £3,000 £5,000

169. According to the Department's data regarding the capital resources of supplementary benefit claimants, these changes will entitle an additional 64 pensioners and 23 under 65s, who are currently in receipt of supplementary benefit, to medical cover, at an estimated additional cost of £31,500 per annum.

New supplementary benefit disregards

170. The supplementary benefit means-test is given expression by the Supplementary Benefit (Implementation) Ordinance, 1971 ("the Ordinance"). When assessing a person's entitlement to benefit, everything which has a value is treated as a resource unless the Ordinance specifies that it should be disregarded.

171. The legislation provides that there is no entitlement to supplementary benefit if a person has capital resources in excess of £20,000. This has the simple effect of avoiding disclosure of detailed financial information on fruitless claims.

172. Any savings or capital resources between £5,000 and £20,000 are deemed to produce a notional weekly income equivalent to 15 pence for every £25 of capital resources in excess of £5,000. This reduces the amount of supplementary benefit payable and forces people to draw down their capital resources to supplement their weekly income.

173. The legislation lists the particular resources which are to be wholly disregarded for the purpose of calculating a claimant's eligibility to supplementary benefit. These include grants from the Education Department, attendance allowance and fostering and adoption allowances. There is no discretion for ignoring other types of income within the benefit calculation.

Compensation payments in respect of the contraction of Hepatitis C from contaminated blood

174. The Skipton Fund ('the Fund') was established in 2004 by the UK Department of Health to administer a UK wide ex-gratia payment scheme for the benefit of people suffering from Hepatitis C, who received contaminated NHS blood prior to the introduction of blood screening in the UK in September 1991.

175. In accordance with the scheme, the UK Secretary of State for Work and Pensions has agreed that payments made from the Fund may be disregarded for the purposes of means-tested benefits. Furthermore, any income generated from the investment of payments from the Fund does not have to be declared by beneficiaries to Job Centre Plus or H.M. Revenue and Customs, so long as it is kept separate from any other capital held.

176. Under current legislation, no such provision exists in the Guernsey supplementary benefit legislation so that payments from the Fund are disregarded for the purposes of supplementary benefit claims. Therefore, if a person were to receive a compensation payment from the Fund, this would either make them ineligible to claim or continue to claim supplementary

benefit, or would significantly reduce the amount of benefit to which they were entitled.

177. Given that the payments from the Fund are intended to enhance the quality of life of people who have suffered unintended and tragic consequences as a result of receiving contaminated blood, and given that these payments are disregarded from the assessment of means-tested benefits in the UK, it is proposed that paragraph 11 of the First Schedule of the Ordinance be amended to allow compensation payments from the Fund to be wholly disregarded for the purposes of a claim to supplementary benefit.

Back to Work Bonus

178. A back to work bonus is a cash lump sum paid to an insured person who has been claiming benefits as a result of unemployment or incapacity for at least six months and who has started a new job which is still ongoing after four weeks. They must be in paid work for at least 15 hours per week to qualify and can only receive one bonus payment in any period of 12 months. There are two bonus rates as set out in table 21 below:

Table 21 – Back to work bonus rates

Hours worked	Back to work bonus
Between 15 and 25 hours	£300
25 hours or more	£500

179. The back to work bonus is not currently listed in the legislation as a resource which should be wholly disregarded for the purposes of a claim to supplementary benefit. Therefore, back to work bonus payments should be taken into account as a resource when calculating a person's entitlement to supplementary benefit. In practice, they have not been taken into account since their introduction in 2010 because, depending on a claimant's requirement rate and level of income from other sources, the bonus would be likely to make a claimant ineligible to receive supplementary benefit during the week that they received the payment, which would defeat the object of the payment, i.e. to provide a financial incentive for people to return to sustained employment after a prolonged period of absence through sickness or unemployment.

180. The legislation needs to be amended to bring it into line with current practice. It is proposed that paragraph 11 of the First Schedule of the Ordinance be amended to allow the back to work bonus to be wholly disregarded for the purposes of a claim to supplementary benefit.

Reduction of resources

181. Over the years, there have been numerous cases where the Administrator has suspected that a claimant has deprived themselves of resources in order to

claim supplementary benefit. For example, people have transferred large sums of money into a relative's bank account, sold assets for considerably less than their market value, spent cash windfalls such as inheritance, insurance or compensation payments in a frivolous manner, etc, prior to, or while, claiming supplementary benefit.

182. In such cases, the Administrator may take these resources into account as if they were still available to the person, effectively reducing or removing a person's right to benefit. However, such decisions are vulnerable to challenge upon appeal as it is difficult to prove that a claimant has deprived themselves of resources *"for the **purpose** of securing a supplementary benefit or increasing the amount thereof"*, as required under the legislation[14].

183. The Department proposes that the legislation be amended so that a deprivation of resources that *has the **effect*** of securing a supplementary benefit or increasing the amount of benefit may be taken into account when assessing a person's entitlement to supplementary benefit. This would transfer the burden of proof from the Department to the claimant who would be obliged to demonstrate to the Administrator's satisfaction that the divestment/abandonment was for a genuine and justifiable reason(s) and not to secure supplementary benefit.

184. Although this is a more hard line approach, the Department is of the view that providing that sufficient public notice is given and existing and future claimants are notified of the consequences of divesting or abandoning resources, and providing that the power to take these assets/resources into account as if they were still available to the claimant is discretionary, amendment along these lines would seem to be reasonable.

Eligibility for a supplementary benefit rent allowance

Entitlement to supplementary benefit

185. At present, a person who falls under one of ten classifications[15] and whose resources are insufficient to meet their requirements, can qualify for supplementary benefit if they are 'ordinarily resident' in Guernsey, Alderney, Herm or Jethou. In practice, this means that a person can immediately qualify for supplementary benefit upon arrival and registration. In March 2012, following consideration of the Department's report regarding the Modernisation of the Supplementary Benefit Scheme (Billet d'État V of 2012, Volume 1), the States agreed to include an enabling provision within the Supplementary Benefit (Guernsey) Law, 1971 allowing the States to

[14] Paragraph 18 of Part III of the First Schedule to the Supplementary Benefit (Implementation) Ordinance, 1971.
[15] Ordinance No. XXXIX of 2009 (w.e.f. 8 January 2010), as amended by the Supplementary Benefit (Classes of persons to whom the Law applies) (Amendment) Ordinance, 2013 (Article I of Billet d'État XV, Vol. 1), w.e.f. 30 July 2013.

prescribe residency conditions by Ordinance. The Law has not yet been amended and the Department needs to undertake further research and consultation into the matter. The Department will report back to the States regarding progress made in next year's Uprating Report.

How supplementary benefit is calculated

186. The amount of supplementary benefit that a person can receive is determined by 'requirement rates' which are based on household size and the age and number of dependent children within the household.

187. Having calculated the supplementary benefit claimant's requirement rate, the Social Security Department adds a rent allowance or, in the case of homeowners, an allowance linked to mortgage interest payments. This allowance is usually the same as the rent being charged (up to the value of the Maximum Rent Allowance[16] for individuals and couples with no dependent children and people living in shared accommodation[17]), but can be reduced if the Administrator, having regard to the nature of the accommodation and the circumstances of the claimant, considers the rent excessive.

188. The relevant requirement rate, plus a rent allowance, equals the amount of income that a claimant is said to need. The amount of supplementary benefit payable is the difference between the claimant's weekly income and their weekly need, unless their need exceeds the benefit limitation, in which case their benefit is capped.

Availability of rent allowances to people living in Open Market accommodation

189. Rent allowances are available to people living in Local or Open Market accommodation, providing that they satisfy the general conditions of entitlement to supplementary benefit. In the last year or so, the Department has received more frequent claims for supplementary benefit from people living in Open Market accommodation. Typically, these claims are from migrant workers with expensive rent and low income.

190. Approximately 5,500 people, around 9% of the Island's population, are resident in the Open Market. These individuals live in properties which are listed on the Open Market Housing Register and which are exempt, to varying degrees, from controls in terms of who may occupy them. On 15 April 2013, there were 1,690 properties on the Register, which is broken down into four Parts as listed below:

[16] Maximum Rent Allowances were introduced in January 2013 (see Ordinance No. XLI of 2012).
[17] "Shared accommodation" means a dwelling where the householder does not enjoy the exclusive occupation of, or right to use, any bathroom, kitchen or washing facilities which are associated with the dwelling in question.

Part A – Private Houses and Flats (94.5% - 1,597 properties)

Part B – Hotels and Guesthouses (3.4% - 57 properties)

Part C – Nursing and Residential Homes (0.6% - 10 properties)

Part D – Lodging Houses (1.5% - 26 properties)[18]

191. In January 2013, an extract of the Open Market Housing Register was compared to a snapshot of supplementary benefit claimants to determine the number of claimants residing in Open Market accommodation. At this time, a total of 70 supplementary benefit claimants were living in Open Market accommodation. Of these, 64 were receiving a rent allowance through supplementary benefit. Tables 22 and 23 below and overleaf provide a breakdown of the household type and supplementary benefit classification of these 64 claimants.

Table 22 - Household 'type' of claimants receiving a rent allowance living in each Part of the Open Market Housing Register, as at January 2013

Household 'type'	**Part of the Open Market Housing Register**			
	Part A	**Part B**	**Part C**	**Part D**
Single	7	7	1	38
Cohabiting	-	-	-	1
Family	2	1	-	7
Total	**9**	**8**	**1**	**46**

[18] Figures from Article I, Billet d'État XI 2013.

Table 23 - Supplementary benefit classification of claimants receiving a rent allowance living in each Part of the Open Market Housing Register, as at January 2013

Supplementary benefit classification	**Part of the Open Market Housing Register**			
	Part A	**Part B**	**Part C**	**Part D**
(a) Severe disability	-	-	1	2
(b) Incapacitated	3	6	-	21
(c) Pensioner	2	-	-	2
(d) Incapable of self support	-	-	-	1
(e) Single parent	1	-	-	5
(f) Pregnant	-	-	-	1
(j) Jobseeker	3	2	-	14
Total	**9**	**8**	**1**	**46**

192. These figures show that, of the 64 claimants living in Open Market accommodation who were claiming a rent allowance in January 2013, 9 (14%) were living in properties listed on Part A of the Open Market Housing Register, 8 (13%) were living in properties listed on Part B, 1 (2%) was living in a property listed on Part C and 46 (72%) were living in properties listed on Part D. It is important to note that many of the people living in Part D properties are locally qualified residents.

Current controls on the occupation of Open Market properties

193. The controls on who can occupy Open Market properties are currently determined by what Part of the Housing Register the property is listed in.

194. People residing in accommodation listed on Part B (Hotels and Guesthouses) and Part C (Nursing and Residential Homes) of the Register require a Housing Licence to live in the property unless they are:

- A qualified resident,
- The owner or, if the property is let, the principal tenant,
- The manager, provided he is employed full-time and does not work anywhere else,
- The immediate family of the owner, principal tenant or manager,
- Full time staff of the hotel or guesthouse, provided they are not employed elsewhere, and

- In the case of Part B properties, bona fide tourists (subject to a maximum duration of stay).

195. An Open Market lodging house listed on Part D of the Register can only be occupied, without a Housing Licence, by the owner and his immediate family. Anyone else living in an Open Market lodging house must hold either residential qualifications or a Housing Licence.

196. In contrast, people living in accommodation listed in Part A (Private Residences) of the Open Market Housing Register do not require a Housing Licence to live in Guernsey. Therefore, they are exempt from controls over the length of their residence in the Island and are free to undertake any type of employment.

197. As the residents of Open Market Part A properties are able to lawfully accommodate individuals who are unrelated to them and who do not hold a Housing Licence, Part A properties are increasingly being used for multiple occupation by unrelated adults. Increasingly, people who do not have the personal wealth traditionally associated with Open Market Part A residents, and who do not hold - and might well not be entitled to hold - a housing licence, are housed in this type of accommodation.

198. As shown in table 24, there has been a significant increase in both the number of Part A properties occupied by unrelated adults and the number of individuals living under these arrangements in such properties in recent years.

Table 24 - Multiple Occupation of Part A Properties[19]

	August 2011	**January 2013**	**Percentage change**
Part A properties being occupied by groups of unrelated adults	115	148	28.7%
Number of individuals living in multiple occupation Part A properties	726	977	34.6%

Proposed legislative change

199. The Department is of the view that it is highly undesirable that Island residents who, by virtue of living in a Part A property, are not subject to any assessment as to: (i) the essentiality of their skills; or (ii) whether they are needed to work in the Island to fill manpower shortages; or (iii) whether they have sufficient connections with the Island to justify the grant of a licence not connected to their employment, might have their rent subsidised by the

[19] Data from Article I, Billet d'État XI of 2013.

taxpayer by way of supplementary benefit, potentially on an indefinite basis given that there are no restrictions over the length of their residence in the Island.

200. The Department, therefore, proposes that the supplementary benefit legislation be amended to make persons residing in a dwelling listed on Part A of the Open Market Housing Register ineligible for a rent allowance.

201. There is nothing to stop residentially qualified persons from living in Open Market accommodation, other than the generally high cost of rent/purchase. Therefore, this legislation change will affect the entitlement of 'local' people living in a dwelling listed on Part A of the Register to a rent allowance. However, the exclusion must apply to all residents in this sector (not just those who have no access to Local Market accommodation) in order to avoid a potential legal challenge on grounds of discrimination.

202. Removing entitlement to a rent allowance from people living in a Part A property would likely result in residentially qualified persons moving to alternative 'controlled' accommodation (i.e. local market accommodation or a lodging house registered on Part D of the Open Market Housing Register, as appropriate) where a rent allowance would be payable. Other Part A residents who cannot afford to pay their rent in a Part A property from their own resources and whose circumstances are such that they cannot obtain a Housing License from the Housing Department permitting them to move into 'controlled' accommodation are unlikely to be able to afford to remain in Guernsey due to the high cost of living.

203. It is not proposed that this provision be backdated, meaning that persons living in a Part A property and in receipt of a rent allowance, whose claims commenced prior to the implementation of the legislation change (likely to be in early 2014), will be unaffected.

204. In the absence of a residency test in the supplementary benefit legislation, new claimants residing in accommodation listed on Part A of the Open Market Housing Register will continue to be entitled to a personal allowance (i.e. their requirement rate) if they fall within one of the ten classifications and if their income is assessed as being insufficient to meet their needs. However, if they are working, it is likely that they would have sufficient income to meet their needs, as determined under supplementary benefit rules, and so would not be entitled to supplementary benefit. That does not mean, however, that they would have sufficient income to meet their actual needs given that they would no longer be able to receive a rent allowance. If they were unable to work for whatever reason, they would be likely to qualify for supplementary benefit to meet their personal needs, but without provision for their rent it is unlikely that they would have sufficient income to be able to afford to continue to live in Guernsey.

205. The Department is of the view that rent allowances should continue to be available to people living in accommodation listed on Parts B, C and D of the Open Market Housing Register as residents are subject to more stringent controls.

Impact of the Future Population Management Regime

206. The Department notes that when the new population management regime becomes operational (as approved by the States on 28 June 2013 following consideration of the Policy Council's report entitled 'Managing the Size and Make Up of the Island's Population' - Article I of Billet d'État XI 2013), Part D of the Open Market Housing Register will be redefined such that it will incorporate all lodging houses and all Part A properties in use for the multiple occupation of unrelated adults and that such properties will be defined as 'Houses in Multiple Occupation'.

207. At present, tenants of an Open Market lodging house listed on Part D of the Register must have a Housing Licence unless they are the immediate family of the owner of the property. Under the new population management regime, tenants of a Part D 'House in Multiple Occupation' will be able to benefit from the Open Market status of the property and will be free to live in the Island, and to work in any employment, for a maximum period of five years' continuous residence in the Island, regardless of whether or not they would otherwise be eligible for an Employment or Residence Permit enabling access to local market accommodation. This is, essentially, a re-organisation of the classification of Open Market Part A dwellings to differentiate between those operating as family homes and those operating as houses in multiple occupation, with residence limits applying to residents in the latter that will not apply to residents in the former.

208. The Department is, therefore, of the view that prior to the implementation of the new population management regime and, specifically, the redefinition of Part D of the Open Market Housing Register, consideration will need to be given to whether tenants of properties listed on Part D of the Open Market Housing Register should continue to be eligible for a rent allowance.

209. The Housing Department supports the Department's proposal to remove eligibility for a supplementary benefit rent allowance from Part A residents. In its letter of comment, the Housing Department stated that, "in light of the recent increases in the size of the Island's Open Market Part A population, your proposal was both a sensible and proactive move."

Cost of proposals for supplementary benefit

210. The expected outturn for supplementary benefit expenditure for 2013 is £20.98m. It is estimated that benefit expenditure in 2014, taking account of

the above proposals and allowing for current trends, will increase by £0.71m to £21.69m.

Family Allowance

211. Expenditure on family allowance amounted to £9.56m in 2012. The allowance is paid at £15.90 per week per child. The budget for 2013 is £9.87m.

212. Family allowance is a universal benefit that is paid to all families with qualifying children, irrespective of the level of their household income. Given the current constraints on States expenditure, the Department will not be recommending any increase in the rate of family allowance for 2014. This will save in the order of £207,000 in 2014, when compared to the proposed 2.1% increase in all other benefit rates.

213. The Department will be considering, as part of the Personal Tax, Pensions and Benefits Review, the appropriateness of continuing to pay universal benefits, including family allowance, free TV licences for all persons over the age of 75 and for persons over 65 in receipt of supplementary benefit, and free prescriptions for all over 65s, or whether they should be means tested.

214. It is estimated that expenditure on family allowance in 2014 will be the same as 2013 (i.e. £9.87m) with no projected increase or decrease in demand.

Attendance and Invalid Care Allowances

215. The Department recommended a number of changes relating to attendance allowance and invalid care allowance which States members approved in October 2011 (Billet d'État XVII of 2011). These changes included:

- the removal of the earnings limitation for invalid care allowance;

- to permit carers in full time education on-Island, over the age of 18, to receive invalid care allowance;

- to give the Department the power to make entitlement to invalid care allowance subject to such conditions as it deems reasonable in order to ensure that any person, in respect of whom an associated attendance allowance is payable, receives appropriate professional attention;

- to allow payment of invalid care allowance for 8 weeks following the death of the linked attendance allowance recipient and 4 weeks if the attendance allowance recipient moves into permanent care; and

- to rename attendance allowance "severe disability benefit" and invalid care allowance "carer's allowance".

216. The necessary legislation has been drafted and is expected to be laid before the States for consideration at their November 2013 meeting. Subject to approval by the States and the Privy Council, it is expected that it will enter into force in spring 2014.

217. Pending completion of the implementation phase, the Department is recommending that attendance allowance (or severe disability benefit when renamed) and invalid care allowance (or carer's allowance when renamed) and the annual income limit for both allowances be increased, with effect from 6 January 2014, as shown in table 25 below.

Table 25 – Current and proposed annual income limit and rates of Attendance and Invalid Care Allowances

	2014	**2013**
Attendance Allowance (Severe Disability Benefit) - weekly rate	£96.95	£94.99
Invalid Care Allowance (Carer's Allowance) - weekly rate	£78.40	£76.79
Annual income limit for both allowances	£90,000	£88,000

218. The annual income limit is the upper limit of income that a family may have, while still being entitled to receive either attendance allowance or invalid care allowance.

219. Benefit expenditure on attendance and invalid care allowances in 2012 was £3.75m. The estimated budget for 2013 is £4.14m. It is estimated that expenditure in 2014 will be £4.63m.

Community and Environmental Projects Scheme

220. The Department administers the Community and Environmental Projects Scheme (CEPS), which offers short-term employment opportunities for unemployed people. The Department contracts with States Works for the necessary supervision of the work teams and also for the provision of transport, equipment and tools.

221. The hourly wages rates for the CEPS scheme are set by the Department and do not require a resolution of the States. From 1 October 2010 the rates payable were brought into line with minimum wage rates. From 1 October 2013, the rates payable will mirror the minimum wage rates set by the Commerce and Employment Department.

Free TV licences

222. In accordance with the resolutions of the States on the 2001 budget (Billet d'État XXIV of 2000), the Department administers a scheme to provide free TV licences for Guernsey and Alderney residents aged 75 or over and residents aged 65 or over and in receipt of supplementary benefit. Benefit expenditure under this scheme was £586,000 in 2012. The scheme is expected to cost £615,000 in 2013. The standard charge per TV licence made by the UK Department of Culture, Media and Sport has been frozen for six years from 2011.

223. The appropriateness of continuing to provide universal benefits, such as the provision of free TV licences, will be considered as part of the Personal Tax, Pensions and Benefits Review.

PART V
MODERNISATION OF THE SUPPLEMENTARY BENEFIT SCHEME

224. Supplementary benefit, even in its current form, provides financial support to 2,410 low-income households across Guernsey and Alderney, including approximately 2,700 adults and 1,250 children (almost 4,000 people in total). The very fact that such provision exists is testament to the commitment of the States in providing support to vulnerable people and much needed income during times of hardship.

225. The supplementary benefit scheme was originally designed as an out of work benefit to support those who, for whatever reason, were not able to work or could not reasonably be expected to work because of age, disability or caring responsibilities. These particular groups continue to make up the largest proportion of all supplementary benefit households.

226. However, the current supplementary benefit scheme is far from perfect. With changing social needs and increasing demands on modern life the system in place today is outdated and perpetuates inequalities within the community, particularly amongst low income households.

227. The Department brings this report to the States in a time of financial restraint and, as such, has developed a balanced set of proposals which will ensure that benefits remain targeted and that overall expenditure is both affordable and sustainable.

228. As part of the 2009 States Strategic Prioritisation process, the States directed the Social Security Department to complete a ‘review of the benefits/contributions system for providing financial assistance for low-income households’, acknowledging that this review would ‘potentially [involve] overhauling the system.’

229. While this is a major undertaking, the Department has always been determined to make progress and has, over the last three years, undertaken significant research, consultation and analysis in order to develop proposals which would achieve fundamental change.

230. On at least two separate occasions the States have had the opportunity to debate the Department's plans and policy objectives:-

- In July 2011, the Social Security and Housing Departments brought a Green Paper on the 'Future of the Rent Rebate and Supplementary Benefit Schemes' to the States (Billet d'État XIII of 2011). This set out the principles behind each scheme and the benefits of aligning the two, as well as asking the States to endorse the direction in which proposals were progressing.

- In March 2012, the States debated a comprehensive report on the modernisation of the supplementary benefit scheme (Billet d'État V of 2012). The report focused on four important areas in which provision was inadequate or inappropriate and made recommendations for change.

231. Supplementary benefit is a cash benefit designed to help individuals pay essential day-to-day living expenses and provide a rent allowance towards their housing costs, whether they reside in social housing, private rented accommodation or mortgaged homes. Like supplementary benefit, the rent rebate scheme is means-tested but rather than pay money to tenants and take it back again as rent, the Housing Department simply reduces the rental charge, ensuring that no tenant spends more than 25% of his income on rent.

232. While many significant changes were endorsed by the States in March 2012, particularly in the area of work incentivisation, the uncertainty surrounding overall estimated costs resulted in several of the key elements of reform being lost. Recommendations made in relation to increased benefit rates, the introduction of maximum rent allowances, discontinuation of the rent rebate scheme and additional staff resources were all unsuccessful.

233. The Department is fortunate that, even with a change in political membership, it has been able to build on the substantial work which has previously been undertaken, supported by the resolutions already agreed by the States. As such, some States Members may already be familiar with the principles of proposed changes and the future provision of support. For others, this will be the first opportunity to help shape the social welfare landscape through further reform of the scheme.

234. The fact that this is the third report on the modernisation of the scheme demonstrates that ongoing change is still required, and that the issues previously raised have still to be addressed. It is regrettable that reform has

not happened sooner, however, the inequalities which currently exist will only be exacerbated if full reform continues to be delayed.

235. The propositions contained within this current report further enhance the package of reforms which have already received States approval. Importantly they make provision for the closure of the rent rebate scheme, which will reduce the potential for inequality of treatment between those in social housing and those living in the private rental sector, and will provide parity across all low-income households. The Department believes that the recommendations made are aligned with States objectives and provide an appropriate framework of support, which will serve generations to come.

236. The rent rebate scheme is effectively a further benefit, although it is not always seen as such, by either its recipients or in terms of overall welfare expenditure. Furthermore, the application of two different systems of means-tested support, as provided by the Social Security and Housing Departments, is a duplication of effort.

237. Clearly there is a need for rationalisation and both Departments share the same belief that only one system of rent and income support should exist and that this support should be provided by the Social Security Department.

238. This change alone will impact on almost 2,000 low-income households, some of whom would experience financial difficulties with a significant or sudden change in income. Therefore, in order to achieve this goal some mitigation has to be made, which will include an appropriate transition from one scheme to the other. For Social Security this movement will be reflected from 2015, in the rates of benefit paid through supplementary benefit and a two staged increase in the overall benefit limitation. In parallel, the Housing Department will cease to operate the rent rebate scheme from 2015, but will, subject to States approval, provide transitional arrangements for those social housing tenants who will be adversely affected, allowing them to gradually adjust to a lower income.

239. To be clear from the outset, this is not about ensuring that in a revised supplementary benefit scheme no household is worse off as a result of change, neither is it about ensuring that all low-income households are better off. Rather, it is an opportunity to close the rent rebate scheme and at the same time establish a set of benefit rates which, when applied to all low income families, irrespective of tenure, ensure a reasonable standard of living, while maintaining the incentive to work and take personal responsibility.

240. The Department believes that the proposed benefit rates will minimise the opportunity for people to receive more on benefits than a family might achieve through working. This will encourage financial independence and personal responsibility across the community. It will also give the States and

the public confidence that benefits are being paid to those who are not able, or cannot be expected to work, including carers, people with serious health problems and pensioners; and to those who are working or actively looking for work but still require assistance.

241. The propositions in this report seek to ensure that all low income households have the same access to financial support when required, that this financial support is reasonable, and that it aligns with the expectations of other households across Guernsey and Alderney.

242. True to its origins, the supplementary benefit scheme will continue to provide essential support for those not able to work or improve their financial circumstances. However, a revised supplementary benefit scheme will also apply a stronger emphasis on personal responsibility and promoting employment for all people who are able and expected to work. As a result of the changes proposed, particularly the withdrawal of the rent rebate scheme, more working households will become eligible to claim a supplementary benefit top-up in order to supplement their existing earnings and help them pay their rent. As part of the implementation of these proposals the Department intends to reflect this transformation by rebranding supplementary benefit as income support (as noted in the March 2012 States Report). This centres on the Department's commitment to support a household's income, whether able to work or not.

243. It is important to note, however, that, if approved by the States, the Department's proposals will not be implemented until the source of funding has been identified. It is anticipated that this is likely to come from a redistribution of universal benefits currently funded from General Revenue. This will be explored as part of the Personal Tax, Pensions and Benefits Review. As the Social Security and Treasury and Resources Departments are not scheduled to report back to the States on the outcome of the Review until mid-2014, the earliest implementation date for the proposals contained in Part V of this report will be January 2015.

244. The Department believes that this represents a measured, balanced and pragmatic solution where changes will only be implemented once funding has been secured. As such this continues to meet States objectives for providing appropriate safeguards for vulnerable people whilst exercising restraint in the current financial climate and taking account of the need for long-term benefits and fiscal sustainability.

Summary of benefits, cost and resource implications

245. As described in this report, there are currently two parallel welfare systems in place: supplementary benefit and the rent rebate scheme.

246. Supplementary benefit expenditure for 2012 was £19.77m, including medical costs and special grants. The Housing Department's rent rebate scheme provided an additional £11.78m[20] in welfare support to its social housing tenants during 2012, many of whom will also be claiming supplementary benefit. The combined cost of the two schemes is approximately £31.55m.

247. The propositions in this report offer a compromise between the recommendations made in March 2012 and the requirement to work within the current fiscal framework. States Members will note that the Department's recommendations are less generous than the propositions of March 2012. However, even these moderated proposals will be a cost pressure on General Revenue.

248. The Department is grateful for the assistance and expertise provided by the Policy Council's Policy and Research Unit (the Policy and Research Unit) in analysing and producing estimates of the cost of these proposals. This detailed financial analysis indicates that reform, as proposed in this report, will cost in the region of £3.75m (annualised) above the current total joint costs of the supplementary benefit and rent rebate schemes, and will assist approximately 1,000 new supplementary benefit households. The Department hopes that the States will agree that this refined figure is much more acceptable than the financial picture presented in March 2012.

249. While the financial projections have been presented as a single point estimate, they are considered to be approximate values and are subject to variation based on the accuracy of the assumptions made, which may or may not, prove to be correct. As detailed in paragraphs 474 to 487, estimates have been calculated using a number of behavioural assumptions, from which, the Policy and Research Unit are confident that their final estimate is within a tolerance of +/- 10%, i.e. between £3.38m and £4.13m per annum (using a benefit limitation of £600).

250. Both the Social Security and Housing Departments are confident in the detailed analysis undertaken by the Policy and Research Unit and have, therefore, adopted the model and the financial estimates which have been produced.

251. In addition to the increased cost of formula-led supplementary benefit, there will be additional staffing and expenditure implications relating to the implementation of these proposals. The recruitment of additional resources will be essential if the Department is to deal with the number of new claims expected to arise following these changes, including the initial take on of all new claims and ongoing claim management. Furthermore, the Department recognises that in order to reduce future supplementary benefit expenditure, an investment has to be made in the provision of additional staff to

[20] £1.48m of this figure relates to the cost (to the Corporate Housing Programme Fund) of providing rent rebates to nominated Guernsey Housing Association tenants

adequately resource the supplementary benefit section. At this stage, it is estimated that the cost of these additional resources may be around £500,000 per annum during the first year of implementation (less in subsequent years).

252. It is expected that 7 permanent posts will be required in the long-term, to handle the additional claims expected to be seen following these changes. These additional staff will work closely with individual households ensuring that work expectations are correctly applied and that people are fulfilling their specific obligations. In addition to the completion of new claim forms (which on average take about 45 minutes each), staff will also undertake regular work focused meetings and reviews, apply sanctions, reassess benefit entitlement and deal with the expected increase in complex casework (some of which will require a multi agency approach). While this type of casework already exists, it is anticipated that by increasing the focus on work and applying the rigorous supplementary benefit means-test to new applicants, including social housing tenants, an increase in complex casework will be seen.

253. Additionally, a further 3.5 contract and 2.5 transitional staff may be needed to adequately resource the initial phase and implementation of a modernised supplementary benefit scheme. The Department intends to recruit these posts as it can more easily adjust staff numbers downwards, once the resourcing implications of the new scheme are fully known. These additional resources compare with approximately 25 full-time equivalents, currently employed within the supplementary benefit section. The ratio of new staff to anticipated new benefit claims is broadly in line with the current ratio of staff to benefit claims.

254. Conversely, it is expected that there will be administrative savings for the Housing Department as a consequence of discontinuing the rent rebate scheme. Therefore, it should be recognised that some of the additional staffing costs, in relation to the increase of permanent posts within supplementary benefit, will be offset through either a redeployment of a number of the Housing Department's staff or, more likely, through a budget transfer. The detail of this redistribution is still to be finalised but is expected to represent the equivalent of 2 – 3 full-time positions at an estimated cost of £70,000. However, the Department will continue to work with the Housing Department and Treasury and Resources Department, to identify and establish the additional staffing resources necessary to implement the proposals contained in this report.

255. Additionally, as part of the Financial Transformation Programme, the Department commenced a business improvement project within the supplementary benefit section in 2012. This project is utilising the skills of a business analyst to help examine all the section's business processes in order to identify efficiencies and smarter ways of working. The Department is confident that this project will also identify resource savings and these will be

offset against some of the new estimated staffing costs outlined in table 33 (paragraph 548).

256. It should be noted that the additional resources detailed in table 33, do not include the 6 permanent posts which will be necessary to implement the work incentivisation strategies approved by the States in March 2012, amongst current supplementary benefit claimants. It is expected that these specific posts will be provided through the Financial Transformation Programme which will result in lower net expenditure.

257. The Department expects to deliver savings through this Financial Transformation workstream by activating more working age people (already in receipt of benefit) into work and the introduction of new and more efficient working practices. The Department anticipates net savings to General Revenue, subject to favourable economic conditions, of over £500,000 by year 2 of the project, through a reduction in benefit payments and an increase in income tax receipts.

Letter of comment

258. The Social Security Department has welcomed the involvement of senior staff and political members of the Housing Department throughout this review, particularly, their regular attendance at Social Security Department meetings to discuss this project.

259. The Department is pleased to have the support of the Housing Department in relation to these proposals, although it notes that this is given with some reluctance. While both Departments are in full agreement about the need to close the rent rebate scheme, believing that it is not appropriate for two Departments to administer different means-tested benefit schemes, they do differ on how best to achieve this.

260. The Department believes that social justice and affordability issues must go hand in hand. As such, the Department considers that the proposals in this report are a necessary step in achieving the goal of providing appropriate means-tested support to all low-income households through the supplementary benefit scheme, and closing the rent rebate scheme. These proposals offer a pragmatic solution which strikes a balance between providing financial assistance to low income households and achieving financial affordability within the current fiscal climate. The closure of the rent rebate scheme is a necessary step.

261. Appended to this report (appendix 1) is a political letter of comment from the Housing Department outlining their specific reservations.

262. The Social Security Department is committed to safeguarding the needs of vulnerable people in low-income households. The Department will assess the

impact of these proposals, once they have been implemented, before deciding on whether these needs are being appropriately met through the income support scheme (the successor to the supplementary benefit scheme). The Department will continue to recommend further steps, as may be suitable at the time, through its annual uprating report.

263. Furthermore, by recommending that these changes take place only when the source of the required additional funding has been identified in the course of the Personal Tax, Pensions and Benefits Review and approved by the States, concerns relating to the funding and implementation of these proposals are negated. This timeframe will also allow the Housing Department to have meaningful communication with its tenants.

PURPOSE OF SUPPLEMENTARY BENEFIT

264. Supplementary benefit, in its current form, provides means-tested support to the very poorest in Guernsey and Alderney, assisting approximately 2,400 households. It provides a safety net that protects people in the local community from abandonment and financial hardship.

265. People claim benefit for a range of different reasons and supplementary benefit must endeavour to support everyone who is eligible, enabling those who are struggling to at least reach a minimum level of income. Pensioners, those unable to work due to ill-health, people with disabilities and those with caring responsibilities all have recourse to supplementary benefit provided that their income is insufficient, according to benefit rates, to meet their need. These groups represent the largest proportion of all supplementary benefit households and provide an illustration of those who would not normally be expected to work.

266. For some, supplementary benefit will be the sole source of income and without such support these people could not even meet their most basic survival needs (food, drink, shelter, warmth). For others, supplementary benefit simply provides a necessary top-up to existing income, whether this is due to a low wage, limited work capacity, high living costs or because they are suffering from a period of acute need.

CONTEXT OF REVIEW

Background

267. Supplementary benefit legislation was introduced in 1971 to replace the earlier non-contributory pension scheme, which first came into being in 1955. However, beyond the change of name, the 1971 Law made only minor changes to the existing scheme.

268. The General Revenue funded system of supplementary benefit has always supported certain groups of people who could not reasonably be expected to work. However over the years, coverage of the scheme has gradually increased as responsibility for claimants has transferred from parish support to supplementary benefit. The Social Security Department is now responsible for providing all means-tested assistance to people who, for whatever reason, are currently or permanently unable to support themselves.

269. While some significant changes have been incorporated, the fundamental rules and requirements of the Law have, for the greater part, remained unchanged. While many social changes have been seen during the same period, the system which exists today is based on forty year old legislation, and a structure which is nearly sixty years old.

Outlining the need for change

270. In March 2012, the States debated a comprehensive report on the modernisation of the supplementary benefit scheme. Through this report the Social Security Department, working closely with the Housing Department, brought proposals outlining the need for change and the necessary vision for the future of effective welfare support.

271. Although the States endorsed specific proposals in respect of work incentivisation, the uncertainty surrounding the overall estimated costs, resulted in several of the key elements of reform being lost. However, the issues which the previous Social Security Department sought to address through these proposals have not disappeared. Indeed, such things as being able to adequately provide for the needs of low income households, the rationalisation of means-tested support, equality of treatment and the delivery of appropriate work-focused support are as relevant today, as they were in March 2012.

272. The Department maintains that a degree of change is still required, in order to address some of the inequalities and unfairness within the existing supplementary benefit and rent rebate schemes. The change in political membership of the Social Security Department and indeed, within the States of Deliberation as a whole, provides the opportunity to re-consider the future of supplementary benefit support and re-examine some of the previous policy objectives.

273. Undoubtedly, the Department has a clear mandate to ensure the health and social welfare needs of Islanders but equally, to ensure that this responsibility is balanced with the fiscal policy objectives of the States. In this regard, the Social Security and Treasury and Resources Departments are undertaking a review of Guernsey and Alderney's personal tax, pensions and benefits systems. The objective of this review is to ensure that the two Departments

strike the correct balance between, fairness, efficiency and financial sustainability within the benefits and tax infrastructure.

274. The Personal Tax, Pensions and Benefits Review is running in parallel to the review of the supplementary benefit scheme. Some of the proposals which will stem from this review and public consultation will be used to inform the future financing of welfare support across Guernsey and Alderney. While certain proposals resulting from this review may be brought to the States by the end of 2013, complete recommendations are not expected to be made until the end of 2014. Therefore, to coincide with these later recommendations and continue the collaboration with Treasury and Resources, the Social Security Department seeks to implement its proposals for the supplementary benefit scheme from January 2015.

Alignment to States objectives

275. The existing system of welfare support, including a thorough review of the supplementary benefit scheme, has been on the States' agenda for many years. Both the 2007 Government Business Plan and the 2009 States Strategic Prioritisation outlined the need and importance for a complete review of the support provided to low-income households.

276. The latest iteration of the States Strategic Plan was approved in March 2013 (Billet d'État VI of 2013). Notably the Social Policy Plan, which is included within the overarching strategy, presents a shift to preventative rather than reactive crisis management.

> *"Prevention should be key rather than focusing solely on reactive crisis management. By providing people with pathways out of poverty, criminal activity, unhealthy lifestyles and preventing exclusion from education and society in general - and more importantly, by preventing such situations arising in the first place - then the quality of life will improve for all Islanders.*
>
> *Furthermore, it is anticipated that the demand for, and the cost of, crisis and acute interventions will be less than would otherwise be the case without such preventative measures being put in place. The Social Policy Group considers that it would be achieving the aims of the Social Policy Plan if poor outcomes for individuals and society in general were reduced or prevented and if positive outcomes were promoted."*

277. A fundamental review of the supplementary benefit scheme is certainly a key part in helping to meet these objectives. Specifically, proposals to reform the supplementary benefit scheme directly link to these Social Policy aspirations.

278. Through a change in focus the Department intends to create a system which promotes economic independence, opportunity and choice, mutual support, independence and personal responsibility. At the same time, a revised scheme will seek to alleviate poverty, unemployment, low educational outcomes, low self esteem and poor wellbeing, homelessness and social exclusion.

279. In addition, the Social Policy Plan outlined four key challenges, namely:-

- The shift to prevention
- The availability of funding
- The demographics
- The need to work better with the third sector

Prevention

280. The Social Security Department is increasingly investing in preventative measures, which are a key part of the Department's social insurance programmes. The Department already places a strong focus on early intervention and regular claim monitoring, and delivers a number of initiatives aimed at encouraging and supporting people back into work and reducing long-term unemployment.

281. For example, the Department provides motivational courses aimed at tackling barriers to employment, courses and one to one training for unemployed young people to help identify their skills, offers paid work and training opportunities for people not working due to unemployment or illness, and contracts with professional recruitment consultants to improve the employment opportunities of local jobseekers.

282. The Department's experience shows that a variety of diverse approaches is necessary to cater for people with different needs, abilities and experiences. The package of support proposed through the review of the supplementary benefit scheme, some of which has already obtained States approval, will also enable this General Revenue funded benefit to become more active in applying preventative measures.

Funding and demographics

283. The review of Guernsey and Alderney's personal tax, pensions and benefits systems will also ensure the long-term sustainability of public finances and services and introduce a greater degree of equity to the system. The proposals put forward in this report will seek to balance the needs of low-income households without committing the States to expenditure which the Island and its taxpayers cannot afford or sustain.

Third sector

284. The Department has experience of providing back-to-work support and training initiatives. It is equally aware that such expertise and work-related opportunities also exist within third-sector organisations. The March 2012 report proposed to work better with the third sector, enabling the payment of grants from the Social Insurance Fund to third-sector organisations enabling them to work with individuals or employers to facilitate returns to work. In future, the Department hopes to successfully work with third-sector organisation to develop and promote suitable work rehabilitation activities.

Future vision for welfare support

285. The Department aims to achieve a single rent and income support scheme which has a strong focus on work and personal responsibility, offers improved assistance to vulnerable young people and pays benefit at rates which support the needs of low-income households.

286. Through delivery of the States Resolutions agreed in March 2012, and the recommendations made through this report, the Department will be able to provide improved welfare support to households across Guernsey and Alderney.

287. The changes introduced will promote work and improve training and employment opportunities for people, reducing the risk, and even the possibility, of prolonged benefit dependency among those who have some work capacity.

288. Benefit rates benchmarked against median household income will ensure that people do not receive more on benefits than a family might achieve through working. This will encourage financial independence across the community. It will also give the States and the public confidence that benefit rates are reasonable and provide appropriate support for those unable to work and to those who are working but still require assistance.

289. Without the existence of the rent rebate scheme, a revised supplementary scheme will treat people fairly, equally and consistently, providing the necessary support to all who are eligible, whether they live in social housing, the private rental sector or in their own home. While, as a result of these changes, more people will become eligible to claim supplementary benefit in the future, this is likely to be in the form of low level income top-ups as a greater number of people will be in work.

290. Furthermore, changes will finally enable the rebranding of supplementary benefit into a modern form of income support. This will better reflect the focus on work and will emphasise the Department's commitment to move

away from outdated expectations and encourage people to claim with dignity and self-respect.

THE SUPPLEMENTARY BENEFIT SCHEME

Function of supplementary benefit

291. People are eligible for supplementary benefit if they have income below a certain level and fit into one of ten statutory classifications. The benefit provides a safety net that protects people in the local community and provides income necessary to meet day-to-day living expenses and fund reasonable housing costs.

292. Supplementary benefit defines a minimum weekly income level below which no one should be expected to live, and for those who cannot reach that level unassisted, it makes up any difference between their actual income and this minimum amount.

293. For some, supplementary benefit will be the only source of income and without such support these people could not even meet their most basic needs. For others, supplementary benefit provides a necessary top-up to existing income, whether this is due to low wages, insufficient pension, high living costs or because they are suffering from a period of acute need, by reason of sudden unemployment or bereavement.

Make-up of supplementary benefit claims

294. The Social Security Department currently pays supplementary benefit to 2,410 households. 1,726 of these claims relate to single adult households or households without children, the remaining 684 claims are in respect of families with at least one dependent child. Coverage of supplementary benefit is, of course, much wider, as in total supplementary benefit supports approximately 2,700 individual adults and 1,250 children (almost 4,000 people in total).

295. 77% of all supplementary benefit households (1,846) are home owners or are receiving a rent allowance, including approximately 700 households living in social housing. The remainder of households either live with family or friends (so only receive support with their day-to-day living costs) or live in residential or nursing care and receive help towards the long-term care co-payment.

296. People claim supplementary benefit for a range of different reasons, however, pensioners continue to make-up the largest percentage of total claims. The 2,410 claims, taken from a snapshot week in June 2013, can be broadly categorised as follows (see table 26 overleaf).

Table 26 - Make-up of supplementary benefit claims (snapshot June 2013)

Reason for claiming	Number of claims	Percentage of total claims	Number of claims with earnings	Percentage of claims with earnings
Disabled	208	9%	62	30%
Incapable of work due to illness or injury	513	21%	15	3%
Pensioner	714	30%	15	2%
Incapable of self support[21]	66	3%	20	30%
Single parent family[22]	460	19%	120	26%
Carer	28	1%	3	11%
Jobseeking or low earner	421	17%	195	46%
Totals	**2410**	**100 %**	**430**	**-**

297. Unfortunately, supplementary benefit has never succeeded in shaking off the stigma attached to it by successive generations. The reasons why a household may not be fully self-supporting are many and varied, and do not necessarily imply idleness or unwillingness to work.

298. Unless a person is signed off sick, they are always permitted and are actively encouraged, to work. However, age, disability and obligations of care towards young dependent children, often make it difficult to secure work.

299. Pensioners, those unable to work because of disabilities, ill-health or caring responsibilities, are not normally expected to work. These groups represent approximately 60% of all supplementary benefit households. While some of the remaining claimants may be able to work (and do work) many will not.

300. In fact, at least 430 claimants are already in work and earning on a part or full-time basis. This may be because the primary claimant is working, or a partner, or both. This is not an insignificant proportion and represents approximately 25% of working age households claiming benefit.

[21] A person is treated as incapable of self-support if he is able to undertake some work but, because of a prolonged physical or mental-health condition, he is unable to support himself fully through employment

[22] A person is treated as a single parent if he/she is not living with a partner (perhaps because of relationship breakdown or widowhood) and is fully or partly maintaining a dependent child (who is under the age of 7)

301. Furthermore, it should be noted that many of those currently working do not, under existing rules, have any obligation to work as a condition of their benefit. This alone demonstrates that it is wrong to associate supplementary benefit claimants with worklessness.

302. The Department believes that the majority of supplementary benefit claimants would prefer, if they could, not to be dependent on the States for financial support; and many already strive to become financially self-sufficient, although low wages and a high cost of living often stand in their way. Some people who work full-time, and earn as much as they can, may always require a top-up from supplementary benefit in order to meet their weekly need.

303. The following four examples are all current supplementary benefit households, whose actual circumstances help to illustrate and reinforce this message.

Example 1

Mr A and his partner have a 6 month old child and rent a flat in the private sector for £200 per week.

Although Mr A has health issues, which could be a barrier to work, he has secured full-time employment. Although not required to, his partner also works on a part-time basis and, like many parents, juggles work around childcare responsibilities.

This young family are doing more than required of them by Law, to become financially independent. However, they still require £133 in financial support from supplementary benefit, to top-up their combined weekly earnings of just £330.

Example 2

Mrs B is a single adult with 1 child (aged 8). She lives in the private sector and pays rent of £207 per week.

Prior to 30 July 2013, Mrs B was classed as a single parent because her child was under the age of 12[23]. Although Mrs B was not previously required to work she chose to do so and, as a result, has a weekly income of approximately £310 (including Family Allowances).

Mrs B receives a weekly supplementary benefit payment of £69 in order to bring her income up to a minimum level.

[23] With effect from 30 July 2013, parents whose youngest dependent child is aged seven or older are classified as jobseekers (Billet d'État XV 2013).

Example 3

Mrs C is a single adult with 3 dependent children. She lives in the private sector and pays rent of £235 per week. Mrs C is impacted by the current benefit limitation of £500.

As her youngest child is above the age of 12[23] Mrs C is expected to work, which she does. However, even with full-time earnings of approximately £450 per week she still requires an income top-up of £73 from supplementary benefit to support her family.

Example 4

Mr D and his wife have 3 dependent children and live in social housing. The standard weekly rent for the property is £297.34 per week, however, as they are entitled to a rent rebate this is reduced and they pay a rebated rent of £99.10 per week, to the Housing Department. This represents an additional States' benefit of almost £200 per week.

Mr D's wife does not work as their youngest child is under the age of 7, however, Mr D works full-time and earns £387 per week (net).

This household claim supplementary benefit of £93 per week to make up the difference between their weekly need (as defined by supplementary benefit requirement rates) and their modest income.

304. These few examples are not exceptional. There are many more cases where households claiming supplementary benefit are doing all they can to become financially self-sufficient. Furthermore, it should be noted that in examples 1 to 3, the private sector rent being charged is within the Department's proposed range of maximum rent allowances.

305. Some supplementary benefit households will always struggle to earn enough to fully support themselves; these may be people with families whose requirements are high as a consequence; or individuals with low earning potential who are nonetheless doing as much as they can. It is just as important that supplementary benefit supports these people as it is that it supports people who are not able or expected to work at all.

Supplementary benefit – the mechanics

306. The primary objective of the supplementary benefit scheme is to ensure that a person's total income, no matter how it is made up, does not fall below a minimum level decided upon by the States each year. As a result, supplementary benefit aims to make up any shortfall between actual

household income and the level of household need, as defined by the requirement rates.

307. The supplementary benefit calculation is made up of two parts:-

- a **requirement rate**, intended to cover day-to-day living costs for each dependent person in the household; and,
- a **rent allowance**, intended to cover housing costs.

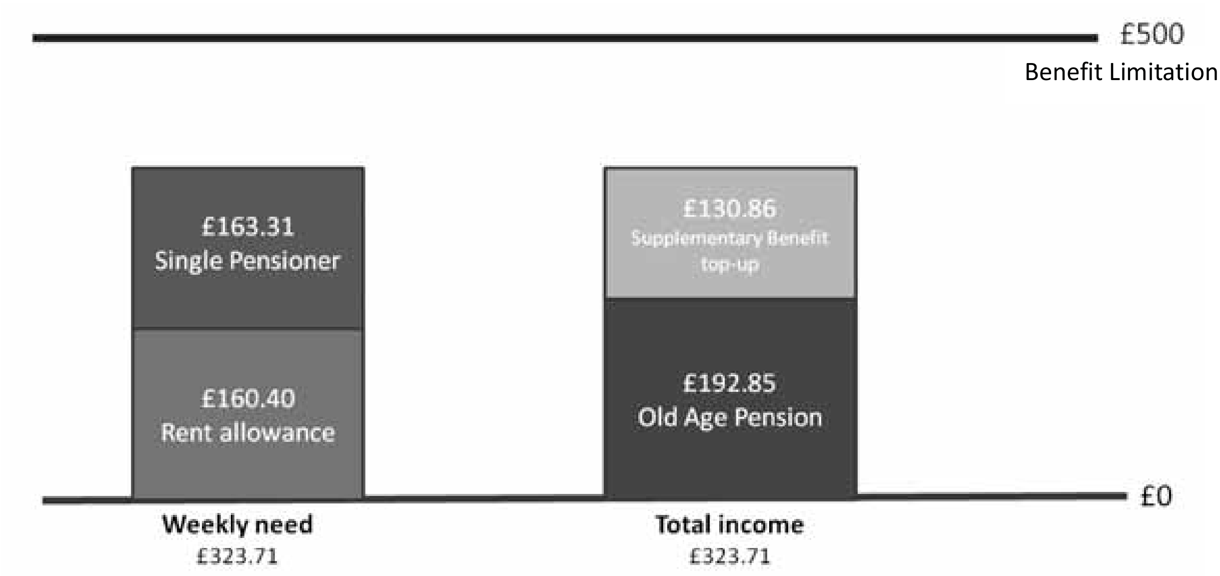
308. Each member of a household is assigned a requirement rate. The rates are higher in value for adults and older teenagers and lowest for younger children. These requirement rates are used to build up a picture of a household's financial situation in order to assess benefit entitlement. Requirement rates are fixed amounts thereby ensuring that, while supplementary benefit is paid according to individual circumstances, all applicants are assessed against the same criteria.

309. A rent allowance can be paid to people renting in the private sector and in social housing, or to cover mortgage interest payments for home-owners. Rent allowances do not cover capital re-payments. The rent allowance for each claim is decided by or on behalf of the Administrator of the Social Security Department following an informal assessment of the rental value of the property and may be lower than the actual rent being charged to the tenant.

310. The value of requirement rates, plus any rent allowance, adds up to the total weekly need of the household. Any income from earnings or other sources is then taken into account to reduce the amount of benefit payable (subject to some limited exceptions and disregards).

311. Once all income has been accounted for, any remaining difference between a household's resources and its total weekly need should be made up by supplementary benefit, this is illustrated in figure 3 overleaf.

Figure 3: **Example of supplementary benefit calculation for single pensioner household, renting in the private sector** (figures based on current 2013 rates)



312. While the type of example shown in figure 1 applies to the majority of all supplementary benefit claims, in practice, no supplementary benefit household, no matter how much they actually need, can have a total household income greater than the benefit limitation.

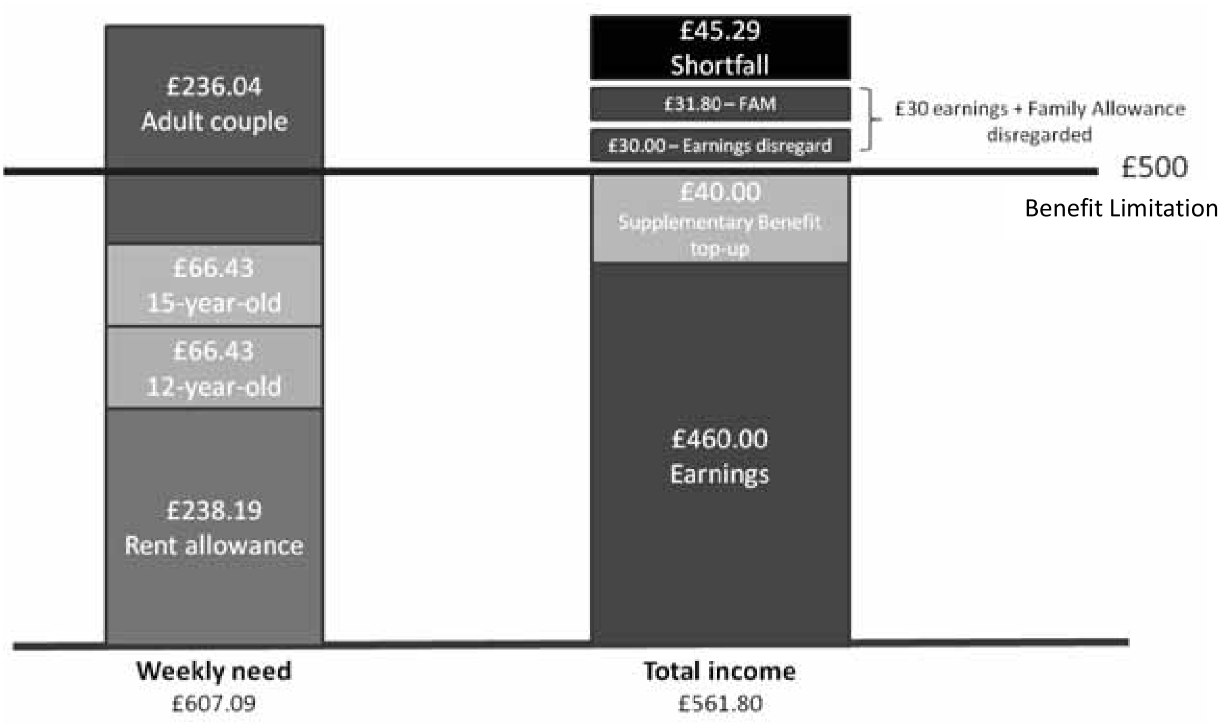
Supplementary benefit limitation

313. Like requirement rates, the benefit limitation is decided by the States on an annual basis. In 2013, the limitation is £500 per week and applies to all household sizes and tenures.

314. The term benefit limitation is misleading, as the 'limitation' actually applies to total household income, not just the maximum amount payable in supplementary benefit. It is in fact an 'income limitation', as apart from the £30 earnings disregard (and in some cases family allowance); the total amount of household income is capped in order to keep it within the £500 limit. This means that in some circumstances, benefit is reduced and households are paid less than the minimum level.

315. The supplementary benefit calculation and the effect of the benefit limitation are demonstrated in figure 4 overleaf.

Figure 4:- **Example of how the benefit limitation is applied to a couple with 2 dependent children, renting in the private sector** (figures based on current 2013 rates)



316. The left hand column shows how much money (according to 2013 requirement rates) this household is said to need each week. The column on the right hand side illustrates the household's total resources, including earnings and supplementary benefit top-up.

317. In this example, the household has a total weekly need in excess of the £500 limit, therefore, the rules of the benefit limitation must apply. This reduces the amount of supplementary benefit which can actually be paid. Currently, the benefit limitation affects approximately 23 households, forcing them to absorb a shortfall in their weekly income ranging from between £3.00 and £168 per week.

318. In recognition of the fact that, as a result of the benefit limitation some claimants are being paid less than they require, the Social Security Department has over the years introduced certain rules that serve to mitigate the effects of the benefit limitation. When calculating household income certain types of income can be ignored or partially disregarded when the benefit limitation is in force. For example, family allowance can be fully or partially disregarded if a claimant's requirement rate exceeds the benefit limitation. This has the effect of making family allowance payable in addition to the supplementary benefit limitation[24].

[24] Family Allowance is always included as an income when calculating the amount of supplementary benefit payable – except when a household is impacted by the benefit limitation.

319. The £27.93 winter fuel allowance (2012-2013 rate), paid only to supplementary benefit householders, is also payable over and above the benefit limitation.

320. Even with these measures in place the household, in the example above, still has a weekly shortfall of £45.29 (over £2,300 per annum). Invariably this shortfall is likely to impact on day-to-day living expenses, as households will generally choose to pay their rent and secure accommodation first.

321. Some households (if they are able) may improve their financial situation by entering work and consequently benefiting from the £30 earnings disregard, however, this only offers a limited recompense. In practice, after the earnings disregard has been applied, households who are affected by the benefit limitation are unable to improve their financial circumstances through work, unless they earn enough to take themselves over the threshold for supplementary benefit support which, for some households, would not be possible. Even if a household is impacted by the benefit limitation, any additional income gained through work e.g. by increased hours or better pay, reduces the amount of supplementary benefit payable, pound for pound.

322. The situation for many households affected by the benefit limitation is compounded by a financial inability to steer through debt, and live within a reduced household budget.

323. Of course not every supplementary benefit household is impacted by the benefit limitation or will need as much as £500 per week on which to live. The assessed need of pensioners and households without children is typically below the benefit limitation, particularly as the rent element of supplementary benefit is also subject to a maximum amount.

324. As dictated by the benefit rates, households will only receive as much as the requirement rates (plus any rent allowance) determine they need. Some households may receive just £1 in supplementary benefit, others, a higher amount. However, it is important to note that only 5 of the 2410 households claiming supplementary benefit receive a payment equal to the benefit limitation (£500), due to their exceptional need. A further 29 households receive supplementary benefit of between £400 and £499 per week (just over 1% of all claims). This compares with 1,480 households, where the payment of supplementary benefit is below £200 per week (60% of total claims).

MARCH 2012 STATES REPORT

325. In March 2012, the States debated a comprehensive report on the modernisation of the supplementary benefit scheme (Billet d'État V of 2012). The report focused on four important areas in which provision was inadequate or inappropriate and made recommendations for change, in order to:-

- Promote and enable personal independence through employment (for those who are able) – using work-focused meetings, access to training, structured action plans and targeted sanctions;

- Improve support, both in and beyond education, for vulnerable young people, and to increase the emphasis on parental responsibility for dependent children by raising the age a person can claim benefit from age 16 to 18;

- Develop one system of rent and income support for all Islanders on low-incomes by integrating the Housing Department's rent rebate scheme with the new supplementary benefit scheme;

- Ensure that benefit levels are sufficient to provide reasonable accommodation as well as a level of funds for day-to-day living to avoid social exclusion.

326. Then, as now, the Social Security Department aimed to achieve a single rent and income support scheme which had a strong focus on work and personal responsibility, offered improved assistance to vulnerable young people and paid benefit rates which better supported the needs of low income households.

327. While many States Members supported the principles for change, the uncertainty surrounding predicted costs was seen to be unacceptable. Consequently, the previous States of Deliberation approved all of the propositions relating to work incentivisation, support for vulnerable young people and amendments to legislation, but did not support the other recommendations in relation to increased benefit rates, introduction of maximum rent allowances, integration of the rent rebate scheme or additional staff resources.

328. It is important, therefore, that current States Members have a clear understanding of the proposals already agreed, in order to see that the recommendations put forward as part of this report have not been done in isolation, but form part of a package of overall changes which are designed to achieve fundamental transformation.

329. For that reason the primary resolutions carried by the States in March 2012 have been summarised within the following sections.

Section 1 - Work incentivisation

330. The resolutions agreed in respect of work incentivisation were designed to make the system fairer by promoting personal responsibility and an expectation of work. Importantly, propositions also sought to provide the

necessary support and early intervention, allowing the Department to tailor a person's individual work requirements.

331. These work-focused proposals reflect the evolving role of social security systems worldwide, as providers of services targeted at work and personal independence, rather than just financial assistance.

Able and expected to work

332. Previously, the Department had been concerned that only people classed as jobseekers were expected to look for or undertake work as a condition of their benefit entitlement. However, the strengthening of work requirements provided the necessary powers for the Department to assess the work capacity of all working-age people receiving supplementary benefit – not just those of the primary claimant.

333. For the first time this will allow the Department to place work obligations on other groups of people such as the spouse or partner of the person making the claim, as well as any dependent teenagers who are no longer in education. Additionally, newly approved legislation means that with effect from 30 July 2013, all parents are expected to work when their youngest child reaches the age of 7, compared with age 12 previously.

Personalised support

334. The Department wants people to be successful in work, so it is vital that people are supported into appropriate and sustainable employment.

335. As a result of this objective the Department will be introducing compulsory work focused meetings, individualised action plans and more support through close one-to-one working. These things along with the Department's current work-related and training initiatives will give people opportunities to engage with employers, improve their skills and re-enter the workplace.

336. In addition, through active involvement in Skills Guernsey, the Department will help ensure a co-ordinated approach to new training and development opportunities, benefiting those out of work and employers alike.

Making people engage

337. The new 'work-focused' approach to supplementary benefit will never be universal. Those who are neither able, nor expected, to work will not be under any obligation to do so. However, people who are of working age and, are able to work, will be expected to engage in work or undertake training with a view to becoming work ready and moving into employment.

338. From the outset of a claim, the Department will ensure that people are made fully aware of the expectations placed on them and of their individual responsibilities while claiming benefit. For people expected to work, rules around attendance and engagement have been strengthened to enable benefit to be temporarily reduced or stopped altogether if people do not make proper attempts to find work, keep work or follow directions from Social Security.

339. Mandatory work placements will be another important tool available to the Department. Work placements will be designed to develop confidence, skills and a work-like routine for participants. Placements will be unwaged, however, benefit will remain in payment throughout.

Section 2 - Supporting young people

340. The Department believes that the payment of supplementary benefit to 16 and 17 year olds is counter to States' policy on parental responsibility and can also be detrimental to their future - encouraging some young people to leave school before they are ready for work.

341. In recognition of this, the States approved a recommendation to increase the minimum age of entitlement to supplementary benefit, building in specific exceptions to protect vulnerable young people who do not have parental support.

342. Understanding the importance of education as a stepping stone into employment, the States also extended provision for these vulnerable young people to remain in full-time education, vocational training or apprenticeships without facing job-seeking requirements.

Minimum age for claiming supplementary benefit raised from 16 to 18

343. Once legislation has been implemented, a person will only be eligible to claim supplementary benefit in their own right from the age of 18, (unless in exceptional circumstances).

344. This recognises the fact that parents remain responsible for their children until they reach adulthood and removes the incentive for some young people to leave school prematurely in order to claim benefits.

345. For families receiving supplementary benefit, the Department will continue to pay the appropriate requirement rate for the young person, protecting parents from a drop in income. The child's requirement rate will continue to be paid, as part of the parents claim, so long as the young person continues to engage in education or with the job centre.

Exceptions

346. Recognising that it is not always possible for a young person to remain in the family home or be supported by their parents, the Department worked closely with the Health and Social Services Department and the Education Department to develop a set of exception criteria. The criteria made provision for the Department to work with other organisations to identify young people who should be entitled to supplementary benefit support as independent adults, before the age of 18.

347. The criteria also allow the Department to work with other agencies in a structured way, to increase the likelihood of positive outcomes for these vulnerable young people.

Section 3 - Legislation tidy-up

348. Supplementary benefit legislation was introduced in 1971 and has seldom, if ever, been subject to a thorough review. In its 40 year history the fundamental rules and requirements of the Law have, for the greater part, remained relatively unchanged.

349. Proposals in this section of the March 2012 report sought to modernise the terminology of the Law, place a legal framework around current extra-statutory provisions, remove redundant provisions and references to defunct legislation, add new provisions and ensure that the Department was able to amend the Law with sufficient speed.

350. The Department has consulted with the Law Officers to discuss the drafting and implementation of these legislative requirements and hopes to be in a position to introduce the work incentivisation proposals in 2014.

SCOPE OF THE MODERNISATION PROJECT

351. The propositions in sections 1 to 3 above were all approved by the States in March 2012 and focus on the effectiveness of the system as regards improving people's work readiness and placing an onus on individual responsibility. Once fully implemented these changes will positively promote work and improve training and employment opportunities for people, reducing the risk, and even the possibility, of prolonged benefit dependency among low-income households.

352. Reflecting on the outcome of the 2012 debate, the Department has considered how best to implement the resolutions passed by the States, and how to move forward with further reform of the scheme.

353. From the start, the Department has been clear that this report should be built on the foundations laid out in the March 2012 States Report, believing that

the original policy direction and principles outlined above were entirely valid. Importantly, through re-examination of the proposals made previously, the Department hopes to seek States approval to finally address the inequalities and unfairness that exists in the current system.

Progress since March 2012

354. As expected, there has been a significant amount of intensive work carried out since March 2012, particularly in relation to bringing forward revised proposals which would be acceptable to the States.

355. The Department has yet to implement the work incentivisation proposals agreed by the States in March 2012, however, much preparation and background work has been undertaken to progress these specific resolutions.

356. Legislative changes in respect of the work incentivisation proposals have been prioritised and will, subject to the approval of the necessary amendments to legislation and additional staff resources, be instigated within 2014.

357. Although the work incentivisation proposals were approved by the States in March 2012, funding for the additional resources required was not given approval. As detailed in March 2012, the supplementary benefit section is already working at full capacity and would be unable to deliver an increased focus on work, without adequate staff resources. Such close working with people takes time, but it is successful and the Department's staff have a lot of experience in helping people into work. Therefore, without the additional staff needed the Department would have little chance of making these changes succeed.

358. The Department has always believed that helping people to be successful in work and find sustainable employment will lead to lower benefit payments being made and fewer reoccurring claims in the future. Therefore, the Department is able to positively report that the appointment of additional staff will be considered through the Financial Transformation Programme, which will result in lower net expenditure. The Department is hopeful that new staff resources will be in place by the end of 2013 in order implement the work incentivisation proposals for current claimants from early 2014.

Objectives of the review

359. This report builds on the foundations of the March 2012 report and on the substantial work that preceded it. The Department is confident that while the proposals presented in this report are a much moderated version of the previous Department's recommendations; they nevertheless address key issues which will contribute to necessary and long-lasting reform.

360. Ultimately, the current members of the Social Security Department, like the previous members, are strongly of the view that the needs of low income Islanders can best be met by a single, all-encompassing means-tested income support scheme (as the successor to the supplementary benefit scheme). A single scheme with a single set of rules will significantly reduce the scope for inequality of treatment and provide parity between all low-income households. This can only be achieved through the closure of the rent rebate scheme.

361. However, a merging of these two means-tested schemes will inevitably mean that while the financial situation for some households will be improved, a number of households will be financially worse off. Therefore, it is essential that any transition is handled with due care and sensitivity. In this regard, both the Social Security Department and Housing Department remain resolute that the rent rebate scheme cannot be withdrawn without some movement in the supplementary benefit limitation and a modest increase in requirement rates.

362. It is important for States Members to understand that a rebalancing of benefit rates and a lift in the benefit limitation is not solely a case of trying to limit the financial impact for social housing tenants. Moreover, the Department seeks to provide appropriate financial security for all low-income households, providing sufficient income to meet reasonable day-to-day living expenses and fund suitable housing costs.

363. Extensive financial modelling has been undertaken by the Policy and Research Unit to fully understand the financial impact of these changes, and to present to the States a clear picture of the projected additional cost pressure which could be placed on General Revenue.

364. Through these revised proposals the Department does not intend to commit the States to expenditure which cannot be afforded in the current financial climate. Therefore, any transformation in this regard will ensure that benefits remain targeted, overall expenditure is sustainable and funding is properly identified.

Areas of work included

365. In order to achieve the objective of a single rent and income support system the Department has focused attention on the propositions which failed to gain approval with the States in March 2012.

366. Considering the depth and complexity of the work involved, even this, has been an ambitious target.

367. The Department has been greatly assisted in its efforts to progress the review by the Housing Department and the invaluable financial modelling expertise provided by the Policy and Research Unit.

368. The scope of this report has been limited to several key workstreams and focuses on the following:-

- **Unifying the rent rebate and supplementary benefit schemes**
  The closure of the rent rebate scheme is still considered to be an important part of delivering an improved and rationalised system of welfare support.

  Having two systems creates inequalities between social housing tenants and private sector tenants in the level of income protection each affords. Although families living in social housing cannot be considered well-off, comparable families in private rented accommodation, families with the same number of dependent children, and the same initial level of income, are substantially worse off.

  Furthermore, it does not make sense for two States Departments to administer overlapping means tested schemes, as occurs with rebated rents for social housing tenants and the payment of allowances for rent within supplementary benefit claims.

- **Meeting the needs of low-income households**
  The Department has a clear mandate to ensure the health and social welfare needs of Islanders, therefore, a thorough review of the supplementary benefit scheme cannot take place without a full examination of the rates of benefit paid.

  Therefore, in assessing the needs of low-income households the Department has considered the impact of benefit rates on people claiming supplementary benefit long-term (those not expected to work), the part benefit rates play in incentivising work, and the expectation of what supplementary benefit rates should provide in the future.

- **Financial impact, funding and future sustainability**
  Although costs remain difficult to predict the Department has been committed to providing the States with a reasonable estimate of costs in order to inform the decision making process. The expertise for such detailed financial modelling has been provided by the Policy and Research Unit, who have assumed responsibility for developing and completing a thorough financial analysis.

The future funding and sustainability of proposals falls within the review of Personal Tax, Pensions and Benefits which is being concurrently undertaken by the Treasury and Resources and the Social Security Department. This review will ensure that the two Departments strike the correct balance between, fairness, efficiency and financial sustainability within the benefits and tax infrastructure.

CLOSING THE RENT REBATE SCHEME

369. In July 2011, the Social Security Department and the Housing Department first reported to the States (Billet d'État XIII of 2011) on the 'Future of the Supplementary Benefit and Rent Rebate Schemes'.

370. The report described a fundamental injustice within Guernsey's current systems of welfare provision: that low income families living in private rented accommodation are almost always worse off than their counterparts in social housing, even if both families are claiming supplementary benefit.

371. Social housing tenants benefit from the rent rebate scheme, which has no equivalent in the private rented sector. Furthermore, because of higher rents, tenants in the private sector are far more likely to be affected by the benefit limitation.

372. The closure of the rent rebate scheme is considered to be an essential part of delivering change within an improved system of welfare support.

Housing Department and Guernsey Housing Association

373. Social housing provided by the Housing Department, exists to supply good quality accommodation to people with low incomes, especially elderly people and families with dependent children. The Housing Department manages approximately 1,700 units of social housing, from bedsits to bungalows, maisonettes to terraced houses.

374. The Guernsey Housing Association was set up in March 2002 and works in partnership with the Housing Department to provide homes for households with low to moderate incomes. The Association is sponsored by the Housing Department as part of the States Corporate Housing Programme, to help provide new additional social housing to meet the needs of local residents. Anyone aged 18 and over with income below relevant thresholds can apply for Guernsey Housing Association accommodation. In practice this tends to be single adults and couples with no dependent children.

375. The Housing Department has an arrangement with the Guernsey Housing Association which means that three quarters of all properties are offered to people on the Housing Department's waiting list. Therefore, a person might

apply for a house through the Housing Department and be offered a Guernsey Housing Association property instead.

376. The tenancy management policies of both accommodation providers are broadly identical and the rents charged are usually lower than those for equivalent properties in the private sector.

Rent setting formula

377. Social housing is rented on a weekly basis, and rents for Housing Department tenancies are set with regard to the actual costs of building and maintaining properties. They are not profit driven, nor are they linked in any way to market rents.

378. Attached to each unit of accommodation is one of a range of standard weekly rents, reflecting the wide variety of accommodation. These rents are reviewed annually and varied according to an objective formula approved by the States. This formula reflects the true cost of providing social housing and provides a repeatable method for ensuring that rents can be updated consistently in line with building costs and maintenance expenses. As a result, the weekly cost of living in social housing is generally lower than that of living in the private sector.

379. Rents set by the Guernsey Housing Association are done with reference to loan repayment commitments and tend to be increased annually, in line with inflation.

380. Although social housing rents are usually lower than those for equivalent properties in the private sector, social housing tenants are among the poorest in the community and a majority of tenants would still struggle to pay the ordinary rent (the standard weekly rent) for their property. In order to mitigate this, the Housing Department operates a rent rebate scheme.

The rent rebate scheme

381. The purpose of the rent rebate scheme is to reduce the standard weekly rents to affordable rents for individual tenants. No social housing tenant spends more than 25% of his income on rent. At the lowest income levels, tenants are expected to pay 14% of their income as rent, but this may be further reduced through allowances for dependent children.

382. Both Housing Department tenants and tenants nominated to the Guernsey Housing Association (GHA) can apply for a rebate; but the scheme does not extend to the private rented sector or to non-nominated GHA tenants.

383. Of the 1,700 tenants in social rented housing managed by the Housing Department, 1,547 are claiming a rent rebate. An additional 243 of GHA

nominated tenants are also in receipt of a rent rebate. The value of the rebate (in terms of the amount by which the Standard Weekly Rent is reduced) can vary from £1 to £270 per week, depending on the nature of the property and the tenant's financial circumstances.

Funding of the rent rebate scheme

384. If the Housing Department collected the full standard weekly rent from all of its tenants it would receive £17.9m in gross rents (for 2012). However, after application of the rent rebate scheme the Department receives only £7.6m in tenancy rents. The value of rebates for States Housing tenants is thus approximately £10.3m. Added to this is a further £1.48m of rent rebate support provided to nominated Guernsey Housing Association tenants. Therefore, the total combined cost of operating the rent rebate scheme during 2012 was £11.78m.

385. The costs associated with the rent rebate scheme grow year-on-year due to rent increases, tenant turnover (with lower income families tending to replace higher earners), and the provision of additional social housing.

Supplementary benefit and rent rebates compared

386. The supplementary benefit scheme provides for the payment of a rent allowance towards a person's accommodation costs whether they reside in social housing, private rented accommodation of mortgaged homes.

387. Similar to supplementary benefit the rent rebate scheme is means-tested, however, the schemes are administered through two separate applications and the income tests applied are done on a different basis. Rather than pay money to tenants and take it back again as rent, the Housing Department reduces the rental charge, ensuring that no tenant spends more than 25% of his income on rent.

388. Both the supplementary benefit and rent rebate schemes have the same aim, to ensure that individuals have enough money to live on, but they achieve it in very different ways.

Removing duplication

389. The need for a single system of rent support for those who cannot meet their own need for accommodation and day-to-day living is, in principle, self-evident. Subject to States' agreement, it is proposed that this should form the basis of a single housing-related benefit, to form part of the future income support scheme (as the successor to the supplementary benefit scheme).

390. The introduction of a single, fit-for-purpose, housing-related benefit would mean that a rent rebate scheme was ultimately no longer required.

391. The value of each rent rebate indicates the extent to which tenants would be worse off if the scheme were to close. In terms of financial support, the only way tenants could mitigate against the effects of the scheme's closure would be to claim supplementary benefit, resulting in a net increase cost to the States.

392. This change alone will impact on almost 2,000 social housing tenants, some 25% of whom may, experience a significant change in income. Therefore, some mitigation has to be made, which will include an appropriate transition from one scheme to the other. For the Social Security Department this will mean an uplift in benefit rates from 2015, and increases to the benefit limitation in 2015 and 2016. In parallel, the Housing Department will cease to operate the rent rebate scheme from 2015.

PROVIDING EFFECTIVE RENT SUPPORT

Maximum rent allowances

393. One of the proposals in the March 2012 report was to replace the supplementary benefit limitation for people living in the community with a series of maximum rent allowances. These maximum rent allowances would have been divided into tenancy groups and linked to the size of the household. At that time States Members did not support this specific proposal.

394. While the Department is no longer recommending the complete removal of the supplementary benefit limitation, it believes that the introduction of maximum rent allowances is still a key development in providing effective rent support through the supplementary benefit scheme. Maximum rent allowances, applied equally to households of the same size in all tenures of accommodation, would make the system of rent support more transparent, and would enable people claiming benefit to make informed choices about the accommodation they occupy.

395. The Department recommends that these maximum rent allowances are based on tenancy groups, which in turn are based on the number of people in a household who are dependent on supplementary benefit for support.

396. As set out in table 27, each tenancy group would have a separate maximum rent allowance, linked to the highest social housing standard weekly rent or Guernsey Housing Association rent for a household of that size.

Table 27 - Proposed maximum rent allowances (2013 terms)

Tenancy Group	Adults	Number of children	Proposed maximum weekly rent allowance (2013 terms)
Group 1*	Single or couple	0	£196.00
Group 2	Single or couple	1	£233.10
Group 3	Single or couple	2	£300.03
Group 4	Single or couple	3 or more	£369.11
Group 5*	Shared accommodation		£155.52

* Maximum rent allowances for Tenancy Groups 1 and 5 were introduced in January 2013 following States approval of the Department's Uprating Report (Billet d'État XXI 2012)

397. The Department believes that introducing maximum rent allowances which are equal to the rents charged in social housing represents a modest introduction to the policy and at the same time continues to meet objectives for providing a transparent system which also enables households to access the private rental sector.

398. It is important to note that the maximum rent allowances detailed above would be upper limits, rather than fixed amounts given to all people within these tenancy groups. The actual rent allowance paid would never exceed the rent of the property occupied and indeed, in accordance with legislation, the Administrator may award a lower rent allowance if he considers that this is reasonable having regard to the circumstances of the claimant and the nature and standard of the accommodation. These existing controls will be retained for the system of maximum rent allowances.

399. It is proposed that there be provision, in exceptional cases, for the Administrator to award a rent allowance above the otherwise maximum level. Such exceptional cases may include people who, by reason of ill-health or disability, may require additional space or a spare bedroom for a carer.

Increasing the benefit limitation

400. Paragraphs 313 to 324, demonstrate that while not every supplementary benefit household has their income reduced by the benefit limitation or needs as much as £500 per week on which to live, it does impact heavily on some households.

401. With recent uplifts in the benefit limitation, it now affects approximately 23 households (less than 1% of all supplementary benefit claims); however, the withdrawal of the rent rebate scheme would require all tenants living in social housing having to pay the full standard weekly rent for the property. Many

of those tenants already in receipt of supplementary benefit would find themselves subject to the current £500 benefit limitation.

402. It is estimated that, if the rent rebate scheme is removed with no change in the supplementary benefit limitation, approximately half of the current social housing tenants will not be affected financially by more than £10 per week (after the payment of rent) and approximately one quarter may be better off overall. However, for the remaining 25% of tenants the withdrawal of the rent rebate scheme could have a negative financial implication. A minority may be worse off to a very considerable amount with approximately 3% effectively losing, or suffering increased costs of, more than £100 a week. This is because they either already claim the maximum amount of supplementary available to them (restricted by the benefit limitation) or they would be ineligible to claim under the current supplementary benefit criteria.

403. Using existing benefit rates, it is estimated that approximately 331 supplementary benefit claimants will be impacted by the current £500 benefit limitation, once the rent rebate scheme has been withdrawn. For these families, no matter how great their need the total household income will be capped and the amount of supplementary benefit which would otherwise be payable would be reduced. A further 92 households (65 of which are living in social housing) would be prevented from claiming supplementary benefit due to the impact of the benefit limitation. These households are excluded from claiming supplementary benefit because their income exceeds the benefit limitation, even though it may still be insufficient to meet their minimum needs.

404. The Department recognises that while the current method for limiting household income may not be perfect, an uncapped benefit system, even one replaced by maximum rent allowances, would not be palatable to the States in the current financial climate. However, in order to deliver an improved system of welfare support and bring about the changes described in this report, the Department does recommend increasing the benefit limitation in two phases.

405. From January 2015, the Department proposes to raise the benefit limitation from £500 to £600 and, from January 2016, intends to increase the benefit limitation from £600 to £650.

406. The need for such substantial increases in the benefit limitation is necessary in order to support many more working families, supplementing their earnings and bridging the gap between an insufficient income and their weekly need.

407. Although the benefit limitation would remain in place and, inevitably, some low-income households would continue to be paid less than they need the financial modelling has shown that moving the benefit limitation to £650 (in

2016) would almost eradicate the impact on most supplementary benefit households, while still giving the States the assurance that overall income remains capped.

408. The Department would also re-iterate that it would only be in the most exceptional of cases that any supplementary benefit household could receive a payment, which was equal to the benefit limitation, through supplementary benefit alone. As detailed in paragraphs 306 to 312, supplementary benefit households only receive as much as the requirement rates (plus any rent allowance) determine they need. Some households may receive just £1 in supplementary benefit, others, a higher amount. However, it is important to note that only 5 of the 2,410 households claiming supplementary benefit receive a payment equal to the current benefit limitation (£500), due to their exceptional need.

409. Furthermore, increasing the benefit limitation in this way will allow the rent rebate scheme to be discontinued from 2015. The Housing Department will, however, subject to States approval, introduce transitional measures for those social housing tenants affected by the closure of the rent rebate scheme.

Future of the supplementary benefit limitation

410. As described above, the Department believes that the supplementary benefit limitation should be increased incrementally, until an overall income limitation of £650 is reached. This will provide the States with assurance that, for supplementary benefit households, total income and benefits remain capped and that the necessary controls are in place to prevent the perceived risks of an uncapped benefit system.

411. The Department does, however, have some concerns that the existence of a benefit limitation, even at an increased level, may actually discourage some households from working or improving their financial circumstances further. This is because households affected by the benefit limitation, particularly those already in employment, will not see any financial reward from increasing their income through additional work, as any supplementary benefit top-up will be reduced to offset any extra income.

412. One option to mitigate this risk could be to retain a benefit limitation for households where no-one was in work, but remove the benefit limitation for households who met their work requirements. Removing the benefit limitation for working families would reduce the number of households affected by the benefit limitation and would provide an incentive for these households to improve their financial circumstances independently. This could reduce reliance on supplementary benefit and with it, benefit expenditure.

413. Such a measure is similar to the approach currently being adopted in the UK through the introduction of a UK benefit cap. The benefit cap which has been gradually rolled out since April 2013, applies to the combined income from the main out of work benefits, plus Housing Benefit, Child Benefit and Child Tax Credit. The benefit cap is set at £350 per week for single adults and £500 a week for couples and lone parents. Households in receipt of certain benefits are exempt from the benefit cap, including households who are working and entitled to a working tax credit. People who have been in employment for at least 52 weeks when they claim benefit will be exempt from the benefit cap for a grace period of up to 39 weeks.

414. The Department intends to continually monitor the effect of the benefit limitation, particularly the impact it has on the behaviours of working age adults, and will report back to the States on any recommendations to amend the benefit limitation further.

INCOME SUPPORT

415. The amount of benefit which should be paid through supplementary benefit and the level of financial support available to low income households is emotive. There are many views on the appropriate amount a household should receive in welfare benefit and like the general public, States Members, will undoubtedly hold different views as to what the benefit rates should be and ultimately what they should provide for.

416. The Department believes that a thorough review of the supplementary benefit scheme cannot take place without a full examination of the rates of benefit paid. This is particularly important as a merging of the rent rebate and supplementary benefit schemes will mean that many social housing tenants will be financially worse off to some degree.

417. The adequacy of supplementary benefit provision was also raised within the March 2012 report, when, in order to better understand the adequacy of requirement rates, the Social Security Department and Housing Department commissioned a Minimum Income Standard study for Guernsey. The purpose of the study was to allow both Departments to assess the adequacy of current welfare provision and make an appropriate comparison with current benefit rates.

418. Rates proposed in the March 2012 report were not equal to the household budgets identified through the Minimum Income Study as some elements of the budget were re-adjusted, particularly those in relation to social exclusion. However, the proposal to increase benefit rates was set with reference to the findings of the study and as a result future supplementary benefit expenditure was predicted to increase significantly.

Measures of poverty

419. The Department has undertaken further detailed work in researching various different measures and indicators of poverty, some of which could be used as reasonable reference points or comparators to inform future benefit rates.

420. There is, however, no universal definition of poverty, as there are many different ways to measure it, the number of people affected by it and the extent of hardship. As such the Department is not confident that one particular method is superior to another, as each measure has its own merits and limitations. Some measures look at an absolute subsistence minimum, considering only basic needs, others look at household consumption reflecting on the actual purchase price of items rather than household income. Median earnings and a 'living' wage are also different ways to assess how much households may need to live. More recently the UK Government has suggested alternative measures, other than income, to identify households who may be at risk of poverty, recognising that simply increasing financial support is not enough to affect lasting change amongst low income households.

421. Two particularly prominent methodologies used to measure poverty or assess the level of income different households need were identified through the Department's research, these included:-

- a percentage of median household income (commonly 60%); and
- a consensus budget approach (e.g. MIS)

Median Income

422. The most widely used international measure of relative poverty among OECD countries relates to median net equivalised household income. Households with income falling below 60% of the median are considered to be at risk of relative poverty.

423. Additionally, for countries bound by the European Social Charter, a minimum standard for the provision of social welfare benefits applies. This minimum standard is 50% of median net equivalised household income.

424. Using a combination of anonymised Income Tax and Social Security data, the Policy and Research Unit have been able to calculate median household income in Guernsey. Currently, this is estimated at £37,800 per annum, after payment of tax and social insurance and receipt of benefits. The 60% of median income figure is estimated to be £22,680 per annum (using the standard OECD methodology). However, in order to identify households who may be at risk of relative poverty, and make a reasonable comparison between households of different sizes, this household income needs to be 'equivalised'.

425. Income equivalisation is a standard technique which applies a weighting to each member of a household. This scoring adjustment is part of the standard international method of calculating relative poverty and is intended to take into account the effect [on income] of households of different sizes and compositions.

426. In real terms, this means that a single adult (equivalence scale 0.67) can typically attain the same standard of living as a childless couple (equivalence scale of 1) on only 67% of its income. The household income is then divided by the equivalised household size to produce comparable incomes.

427. In many larger jurisdictions these statistics are presented before and after housing costs. This means that the amount of money a household spends on housing (i.e. their rent or mortgage) is subtracted from their income during the calculation. This allows the statistics to better capture welfare provision in the form of social housing and the benefits of owning a property outright. However, with the data currently available, it has not been possible to include housing costs within the calculation of relative poverty in Guernsey. Statistics are, therefore, based on a 'before' housing costs picture.

Minimum Income Standard (MIS)

428. The MIS methodology was developed by the Centre for Research in Social Policy (CRSP) at Loughborough University, supported by the Joseph Rowntree Foundation, a social policy research and development charity. In 2011, at the invitation of the Social Security Department, CRSP academics visited Guernsey to carry out a study aimed at identifying a minimum socially acceptable standard of living on the Island, as defined by people who lived here.

429. Eight focus groups were selected randomly by telephone and recruited by certain characteristics in order to represent a cross-section of Guernsey society. The groups discussed and made decisions as to the items needed by different types of household (including working-age adults, adults with dependent children, and pensioners). Experts on heating and nutrition reviewed the 'household budgets' to ensure that they were healthy, but the decision-making process – on the type, quality and lifespan of each item – was entirely focus group-led.

430. The focus groups agreed that a minimum socially acceptable standard of living in Guernsey should include all the essentials for survival (food, clothes and shelter), but should also encourage human development by taking account of physical and mental wellbeing. Opportunities for exercising personal choice, responsible decision-making and participation in social and cultural life were therefore included.

431. Staff at the Social Security and Housing Departments then priced each household budget by contacting local shops and service providers. The total cost of each household budget was used as the starting point when, in 2012, the Social Security Department asked the States to approve a new set of benefit rates. The proposed rates represented 66% and 75% of the household budgets created via the MIS process, the higher percentage reflecting the long-term rates. The Department did not recommend rates equivalent to 100% of the MIS for two reasons:

432. Firstly, several items included in the household budgets were (and are) provided to people claiming supplementary benefit through a variety of allowances: rent is funded through a separate rent allowance; medical expenses are covered separately; a fuel allowance is available in the winter months; and the childcare costs of people who return to work are offset against their earnings. The standard benefit rates therefore do not need to cover these costs.

433. Secondly, the Department took the view that some of the costs in the household budget relating to social participation were too aspirational, and so scaled them back accordingly.

434. In March 2012 the States rejected the majority of the Department's proposals relating to the modernisation of the supplementary benefit scheme, including those relating to the MIS-derived benefit rates.

Financial modelling

435. Having considered the extensive research undertaken, the Department considered it appropriate to model the net cost of the revised supplementary benefit scheme against these two methodologies, keeping as many options open as possible.

436. The financial modelling and costs associated with amending supplementary benefit rates was undertaken on six different benefit rate options. Recognising that it would not be acceptable to continue applying existing benefit rates, or again proposing the same rates as March 2012, options 1 and 2 were modelled for comparative purposes only.

437. For comparison, the different benefit rate options modelled were:-

- Option 1 - current benefit rates (2013)
- Option 2 - rates proposed in March 2012, based on 66% and 75% of MIS
- Option 3 - rates proposed in March 2012 (less 5 %)
- Option 4 - rates proposed in March 2012 (less 10%)
- Option 5 - rates proposed in March 2012 (less 15%)

- Option 6 - rates set in relation to 60% median household income (broadly equivalent to 52% of MIS on short-term rates and 65% of MIS on long-term rates)

438. Each option was modelled using the existing benefit limitation of £500 and increases to £550, £600 and £650 in order to compare the impact that this would have on the overall cost of the revised supplementary benefit scheme.

439. The comprehensive analysis provided by the Policy and Research Unit allowed the Department to narrow down the different options presented. This refinement means that the Department is confident that the benefit rates proposed will improve the situation for many people who are currently on benefit or will become entitled to benefit in the future and, at the same time, places a reasonable limit on additional expenditure.

Review of requirement rates

440. The objective of both the Housing and Social Security Departments, with the support of the States, is to rationalise both the rent rebate and supplementary benefit schemes into a single welfare system. The achievement of this objective needs to ensure equality of treatment, while being affordable and sustainable.

441. Regardless of the actual methodology used to determine benefit rates, the Department is keen to establish a set of benefit rates which, when applied to all low income families, irrespective of tenure, ensure a reasonable standard of living.

442. The purpose of the Minimum Income Standard study is to establish a figure for what society considers a socially acceptable minimum standard of living. It is not primarily expected to be used to set benefit rates or indeed to determine the minimum baseline for benefit provision and has not, to the Department's knowledge, ever been applied in this way in other jurisdictions.

443. However, the findings of the research are a useful way of evaluating the adequacy of overall supplementary benefit provision, including benefit rates, housing support and the provision of childcare and medical costs. Furthermore, the research provides an opportunity to consider the extent to which benefits enable (or should enable) Islanders to reach that particular standard of living.

444. The Department is not being critical of the principles put forward previously when using the results of the Minimum Income Standard study to propose new supplementary benefit rates in March 2012. However, after reflecting on the methodology of the study, the increase in predicted expenditure and on the outcome of the States debate, the Department considers that median household income is currently a more robust and reasonable comparator.

445. The benefit rates proposed in table 28 have, therefore, been set with reference to the extensive work undertaken by the Policy and Research Unit in identifying median household income for Guernsey.However, the Department's proposed benefit rates can also be compared with the Minimum Income Standard (MIS) as they are broadly equivalent to 52% of MIS on short term rates and 65% of MIS on long term rates.

446. However, it is clear that neither median household income nor the Minimum Income Standard were devised as a method for setting benefit rates. While the Department has, on this occasion, referenced benefit rates to median household income, this is a subjective decision and one which has also been made with reference to other indicators and measures of poverty. The comprehensive information considered by the Department has been used to inform the development of benefit rate proposals and ensure that the Department is within an acceptable tolerance of these different benchmarks.

447. The decision taken by the Social Security Department to benchmark requirement rates in relation to median household income was taken only after trying to strike a fine and appropriate balance between, on the one hand, providing much needed financial assistance to low income households and, on the other hand, the need to achieve financial affordability. In other words, the Department believes that social justice and affordability issues must go hand in hand.

448. The Department recommends an increase in requirement rates as shown in table 28 overleaf. The rates presented in this table use a 2013 baseline and, subject to States approval, will require an appropriate uplift closer to the 2015 implementation. It is expected that this indexation will be defined through the Department's 2014 uprating report.

Table 28 - Proposed supplementary benefit requirement rates for implementation from January 2015 (using 2013 baseline)

	Short-term rates (£)		Long-term rates (£)	
	Current (paid for first 6 months of claim)	**Proposed** (paid for first 12 months of claim)	**Current** (paid after 6 months)	**Proposed** (paid after 12 months)
Single adult	132.86	136.36	163.31	167.61
Couple	191.31	196.34	236.04	242.25
Non-householder couple	-	137.55	-	169.71
Non-householder (18+)	101.15	101.82	126.77	127.60
Non-householder (16-17)	68.81	101.82	68.81	127.60
Dependants				
Child (18+)	101.15	101.82	126.77	127.60
Child (16-17)	85.89	61.24	107.38	76.56
Child (12-15)	53.20	40.56	66.43	50.55
Child (5-11)	38.64	40.56	48.16	50.55
Child (0-4)	28.14	40.56	35.49	50.55

449. As expected, the benefit rates proposed have been set with much deliberation and discussion, particularly the impact they will have on people claiming supplementary benefit long-term (those not expected to work), the part benefit rates play in incentivising work, and the expectation of what supplementary benefit rates should provide in the future.

450. In themselves, the benefit rates proposed make no guarantee that every supplementary benefit household will achieve an income equal to or greater than the 60% reference point, and to make such a commitment would be considerably more expensive. That is especially the case as the Department is steadfast in its view, that the overall cost of changes also needs to be affordable and acceptable to the States.

451. However, it is also worth remembering that the whole package of support available through supplementary benefit is more than just requirement rates. Rent and housing costs are considered separately, childcare can be off-set against earnings and medical costs are paid directly to service suppliers. When the value of these additional benefits is taken into consideration, some households may move closer to the median income figure.

Non-householder couples

452. As part of the review of requirement rates, the Department intends to recommend the introduction of a new requirement rate (non-householder couple) which would apply in respect of couples who live with family or friends. Under current rules, the requirement rate applicable in respect of couples who live with family or friends is either £191.31 or £236.04 per week

(depending on whether short or long-term rates are being paid). This couple rate is intended to take into account the additional costs that people who are renting or are home owners, may have to pay.

453. The Department believes that couples, who are living with family or friends, should be treated in the same way as single people, and that there should be a lower requirement rate to reflect their housing situation. The Department recommends the introduction of this new rate to bring the treatment of couple non-householders in-line with single non-householders.

Short versus long-term rates

454. At present, requirement rates apply at long-term levels to people who have been claiming supplementary benefit for six months or more, and at short-term levels to people who have been claiming for less than six months.

455. As part of the review of requirement rates, the Department is recommending that short-term rates should apply for twelve months rather than six. The Department believes that for people who have a work requirement, the period between the start of the supplementary benefit claim and the start of the long-term rate should be long enough to ensure that the promise of accessing those rates does not act as a disincentive to prepare for work or maximise earnings. The Department hopes that by increasing the length of time the short-term requirement rates are paid for, a person who is able and expected to work would not be encouraged to try and prolong their claim in order to receive the higher long-term benefit rates.

Welfare of children

456. The Department believes that the protection of children is paramount and that a priority of the States should always be to safeguard the welfare of children and avoid child poverty. Under the Children and Young People's Plan, which was developed following the introduction of The Children (Guernsey & Alderney) Law 2008, the Department has a specific responsibility to '*Identify and implement strategies to help children and young people to move out of poverty, as part of the wider review of benefits'*.

457. Proposals to reform the supplementary benefit scheme will increase the emphasis on parental responsibility and will promote and enable personal independence through employment, for all those who are able. The Department hopes that by working alongside other agencies, and offering appropriate support to individual households, families will be able to move into work and become financially independent.

458. Equally, the Department has a responsibility to ensure that families are appropriately supported through supplementary benefit, and that requirement rates paid for dependent children help to protect the household from poverty.

459. As shown in table 28 paragraph 448, the Department currently pays 10 different requirement rates for children. The rates are higher in value for older teenagers and lowest for younger children. The Department believes that the requirement rates for younger children should be increased and that, overall, children's rates should be rationalised. The Department proposes that on long-term rates, families should receive £50.55 per week for children aged 0-15, and a higher weekly rate of £76.56 should be paid for children aged 16-17. If a child is still classed as dependent at age 18 (because they are still in full-time education) a rate equal to the non-householder allowance would be paid to parents. Furthermore, the Department's proposals to increase the benefit limitation will be another way to ensure that the needs of low income families are appropriately met through supplementary benefit, and protecting families from poverty.

Entitlement to supplementary benefit

460. The gateway to supplementary benefit is typically through short-term benefit rates. In general, claimants cannot move straight onto long-term rates, except for some pensioners in certain circumstances. Therefore, some households not currently claiming may never be able to claim supplementary benefit because their income would exceed short-term requirement rates and, therefore, they would never be entitled to receive long-term requirement rates. The Department acknowledges that in some circumstances this policy may need to be relaxed in individual cases.

COST AND RESOURCE IMPLICATIONS

461. During the March 2012 States debate the uncertainty regarding total and on-going benefit costs, as well as the lack of identified funding, were major stumbling blocks to the proposals submitted. In March 2012 it was estimated that if all proposals were introduced, General Revenue costs would increase by between £8.34m, in a best case scenario, and £19.89m in a worst case scenario (annual figures). The large range in predicted costs was largely dependent on how many low-income families, not currently claiming, took-up benefits in the future.

462. The Department always maintained that it was unlikely that the real figure would be at the top end of the predictions and that further iterations of the financial model were likely to produce more reliable estimates. However at that stage, time constraints did not allow the financial analysis to be re-worked or developed further.

463. Although the costs arising from modernising the supplementary benefit scheme remain very difficult to predict, the Department has been committed to providing the States with reasonable financial estimates in order to inform the decision making process.

464. To counter the financial uncertainty seen previously, the Policy and Research Unit have assumed responsibility for developing and completing the financial modelling work and presenting revised estimates within a more narrow range. However, it should be understood that the model is a statistical model, not a budget. Therefore, the figures presented are subject to variation based on the accuracy of the assumptions made, which may or may not, prove to be correct. An example of this, as described in paragraphs 483 to 484, is the assumption that only one third of potential new claims would occur.

465. Both the Social Security and Housing Departments are confident in the detailed analysis undertaken by the Policy and Research Unit and have, therefore, adopted the model and the financial estimates which have been produced.

466. While the proposals contained within this report will cause a net increase in General Revenue expenditure, it is anticipated that costs will be offset by recommendations made as part of the Personal Tax, Pensions and Benefits Review. Efficiencies will also be seen through the withdrawal of the rent rebate scheme, as the Social Security and Housing Department's staff will no longer be responsible for collecting and processing the same financial information twice.

Financial modelling

467. To ensure that the financial modelling correctly assessed the possible impact these changes could have on different household types, a comprehensive financial model was created. The financial model portrays a complicated financial picture, which has involved the thorough analysis of an anonymised dataset. This is the same dataset used to provide financial estimates in the March 2012 report (Billet d'État V of 2012), however, it has been subject to a much greater forensic examination and cleansing, to remove anomalies and errors.

468. The anonymised dataset was created by merging Income Tax data (from 2009), with Social Security and Housing Department data (from 2011), uplifted by inflation or the increase in benefit rates, as appropriate, to provide a 2013 baseline.

469. This all-inclusive dataset allowed the Policy and Research Unit to examine the effect of these proposals on the whole of the local population. Specifically, the range of data included in the model allowed the Policy and Research Unit to analyse the impact amongst different groups i.e. existing supplementary benefit customers, social housing tenants and people in the rest of the community (households who were neither on supplementary benefit nor living in social housing).

470. While it is recognised that the 'actual' claimant population will have changed in the intervening time period, given the time lags involved in obtaining datasets from existing data sources, it would not have been possible to create a current 2012 picture. Indeed, in practical terms it would not be feasible to create a dataset updated by just one calendar year.

471. Without an automatic matching system to reconcile and cleanse the data, the additional benefits of using a more recent dataset would be outweighed by the costs and manual resources which would be required to create it. Therefore, resources were devoted to cleansing the existing dataset and improving the earlier model.

472. This dataset may be historic, but its depth and breadth remains greater than any other similar exercise to date.

473. Additionally, given the objective of the modelling was to estimate the underlying increased costs to the States, it is arguable that the actual claimant population and costs in 2011 is more reflective of normal conditions than existing spend, which is further exacerbated by current economic conditions. The financial estimates, with the relevant 'safety factor', need to be added to current total expenditure (rather than Department budgets) to gain a total cost to the States.

Assumptions

474. Even with such a comprehensive set of data, a number of assumptions have still had to be made. The primary assumptions made by the Policy and Research Unit in their analysis are summarised in the sections below:-

Existing claimants in the model

- There was no significant change in the number or profile of benefit claimants in the intervening period between the data snap shot (2011) and the current date;

- Housing Department tenants who are not currently claiming supplementary benefit (but may be eligible) will begin to claim; as once the rent rebate scheme has been withdrawn they will be required to pay the full standard weekly rent for the property they occupy;

- All new supplementary benefit claimants will be eligible to both the winter fuel allowance (paid only to householders), and other fringe benefits such as medical and para-medical cover;

- All Housing Department tenants will be assessed for supplementary benefit on long term requirement rates, and will be paid a rent allowance at the full value of the standard weekly rent for the property they live in. This last assumption is based on the understanding that the Housing Department will attempt to reduce any under occupancy within its properties, and will seek to ensure that tenants are transferred to appropriately sized accommodation.

Non-claimants in the model (people not currently receiving supplementary benefit or rent rebate)

- There was no significant change in the number or profile of people not in receipt of benefit (non-claimants), in the intervening period between the data snap shot (2009) and the current date;
- People living in the private rental sector, who are not currently claiming supplementary benefit, are assumed to have rents broadly equivalent to those charged by the Guernsey Housing Association;
- A proportion of owner occupiers, who are not currently claiming supplementary benefit, are assumed to own their property outright and therefore, would not receive an allowance for mortgage interest. This estimate was based on data from the Household Expenditure Survey and adjusted by the age of the principal claimant.

475. The financial model also showed that approximately 1,700 people appeared to be eligible to claim supplementary benefit at current rates, but were not doing so at present. Therefore, a significant exercise was carried out to rationalise this number, as described in paragraphs 476 to 487.

Capital

476. For the purposes of the current supplementary benefit calculation, capital above £5,000 is reckoned to give a notional income, on a pro rata basis, and those with capital in excess of £20,000 are not entitled to claim. Therefore, households who were identified to have capital in excess of £20,000 (based on the interest income declared to Income Tax) were removed from the dataset, as they would continue to be ineligible to claim in a revised scheme.

477. This reduced the potential number of claims by approximately 200.

Income distribution

478. The remaining 1,500 people appeared to be eligible to claim supplementary benefit but were not doing so at present. This number was further rationalised by excluding those with the largest and smallest income. The paragraphs below explain the rationale for this.

479. The average total household income was analysed by household type and sorted into income deciles. The income distribution showed that the

annualised average household income across all household groups in the first two deciles (lowest 20%) was £1,197 and £4,391 respectively. It was assumed that a household with annual income this low could not survive without claiming financial support. As they were not already claiming any benefit, the inference had to be that one way or another they had a source of income. Accordingly, these first 2 deciles were removed from the estimated number and cost of new claimants.

480. Similarly, the annualised average household income across all household types in the top two deciles (highest 20%) of the population was high enough that people living within those households would not be likely to claim supplementary benefit. In many cases these households included non-dependents who, although not assessable as part of the supplementary benefit claim, had a significant income. On this basis, people living in households in the 9th and 10th deciles were also removed from the dataset.

481. The middle 60% of the population who were apparently eligible to claim supplementary benefit, but were not doing so, remained in the dataset and were considered as new eligible claimants.

482. These measures excluded approximately 700 claimants.

Probability of claim

483. Further to the adjustments described above, which narrowed the dataset to the middle 60% of new eligible claimants, a further assumption was made, that approximately only one third of potential new claims would occur. This 'one in three' assumption is a reduction, based on an acknowledgement that for many of those technically eligible, but not currently claiming, this is a deliberate choice (in which case they may also choose not to claim in a reformed scheme).

484. This assumption is further supported by a paper published by the International Social Security Association (ISSA) in 2012. This study examined the take-up of Luxembourg's minimum income support benefit and found evidence to suggest that 65% of people, who appeared eligible for the benefit, did not claim.

485. Assumptions made regarding the probability of a claim further reduced the number of new supplementary benefit claims which could materialise by a further 500.

486. The assumptions described above reduced the total number of people in the model who appeared to be eligible to supplementary benefit at current rates, but were not claiming at present, from 1,700 to 300. The remaining 300 (costing £1.79m at the current rates) represents the number of people who are considered likely to make a claim to supplementary benefit in the future.

487. The number of potential new claims to supplementary benefit (identified through the financial modelling and assumptions above) is shown in table 29 overleaf. This is presented for three of the different benefit rate options modelled, and on the basis that the rent rebate scheme is no longer in operation and has been completely withdrawn.

Table 29 - Number of potential new claims to supplementary benefit and impact of the benefit limitation (as identified through the financial model)

Requirement rate	Benefit limitation	Number of claims impacted by benefit limitation	Number of households prevented from claiming due to benefit limitation[25]	No. of current supplementary benefit claims[26]	New claims from social housing	New claims outside of social housing	Total no. of potential new claims[27]	Total no. of eligible claims[28]
Option 1 Current baseline 2013 benefit rates	500	331	92	2,004	720	270	990	2,994
	550	165	52	2,004	751	272	1,023	3,027
	650	38	9	2,004	776	275	1,051	3,055
Option 2 Rates proposed in March 2012 (uplifted by RPIX)	500	692	204	2,061	775	322	1,097	3,158
	550	397	124	2,061	821	329	1,150	3,211
	650	156	35	2,061	862	336	1,198	3,259
Option 6 Recommended Rates set in relation to median household income	500	381	93	2,013	723	274	997	3,010
	550	183	46	2,013	758	276	1,034	3,047
	600	85	17	2,013	775	279	1,054	3,067
	650	23	8	2,013	782	279	1,061	3,074

[25] The total number of households unable to claim supplementary benefit due to the benefit limitation (i.e. no entitlement)

[26] Figures vary between options due to some current supplementary benefit claimants eligible for fringe benefits only

[27] Total number of **new** claims to supplementary benefit, net of adjustments (some may be eligible under current benefit rules)

[28] Total number of supplementary benefit claims, net of adjustments (some may be eligible under current benefit rules)

Financial projections

488. Due to time constraints, the March 2012 proposals did not take into account the above assumptions. Therefore the results of the previous financial modelling reflected a much wider increase in new claims, and broader range of potential costs.

489. The comprehensive analysis undertaken by the Policy and Research Unit does provide reasonable financial estimates for the cost of modernising the supplementary benefit scheme. However, while the figures are more refined and present a much more reliable picture of predicted expenditure, final financial estimates can never be established.

490. For the purposes of clarity, the analysis of the various proposals was modelled against a historic dataset in order to calculate the total new net cost to the States, over and above current expenditure. This figure was then adjusted for inflation.

491. Rather than present a range of financial estimates in the report, a single point estimate has been produced to make reasonable comparisons between the relative costs of the various options under consideration. However, these point estimates are considered to be approximate values.

492. Estimates have been calculated using a number of behavioural assumptions, from which, the Policy and Research Unit are confident that their final estimate is within a tolerance of +/- 10%, i.e. between £3.38m and £4.13m per annum (using a benefit limitation of £600). This is to reflect that however forensic and detailed the methodology, the approach can only ever determine approximate estimates.

493. The costs associated with amending supplementary benefit rates was undertaken on six different benefit rate options (as described in paragraphs 437 to 438). Each option was modelled using the existing benefit limitation of £500 and then on incremental increases which raised the limitation to £550, £600 and £650, in order to compare the impact that this change would have on the overall cost of the revised scheme.

494. Table 30 (paragraph 502) shows a summary of the estimated costs associated with three of the different benefit rate options modelled:-

- Option 1 - current benefit rates (2013)
- Option 2 - rates proposed in March 2012, based on 66% and 75% of MIS
- Option 6 - rates set in relation to 60% median household income (broadly equivalent to 52% of MIS on short-term rates and 65% of MIS on long-term rates).

495. All options modelled make the assumption that the rent rebate scheme is no longer in operation and has been completely withdrawn.

496. As described above, option 1 has been modelled using the 2013 requirement rates, whilst option 2 applies the rates proposed to the States in March 2012, being linked, but not matching, the findings of the 2011 Minimum Income Study. The Department does not recommend that the States resolve to set benefit rates according to either of these options, and they have been included for comparative purposes only.

497. Option 6 is the Department's recommended approach, and the financial estimates presented under this option are based on benefit rates set in relation to median household income (paragraphs 444 to 448). Furthermore, the Department also intends to make changes to the benefit limitation. From January 2015, the Department proposes to raise the benefit limitation from £500 to £600 and, from January 2016, intends to increase the benefit limitation from £600 to £650.

498. In reaching this decision, the Department has given careful consideration to the needs of households who require assistance from supplementary benefit, some of whom will not be able and would never be expected to work, and also to the estimates presented in the financial modelling. The Department believes that the recommendations being proposed demonstrate a balanced approach which will ensure that all eligible households are appropriately supported and that future supplementary benefit expenditure is affordable.

499. The financial analysis shows that the effect of increasing benefit rates, as outlined in table 28 and raising the benefit limitation to £600 could have a net increase in General Revenue expenditure of £3.75m (annualised) above the current total joint costs of the supplementary benefit and rent rebate schemes, excluding additional staffing costs.

500. The modelling has shown that there should be no material change to this figure, once the benefit limitation has been increased to £650. Additionally, a benefit limitation of £650 would mean, that while some households continue to be impacted by the benefit limitation and would be paid less than they need, increasing the limitation to £650 would almost eradicate the impact on most supplementary benefit households.

501. In addition to the increased cost of formula-led supplementary benefit, there will be additional staffing and expenditure implications relating to the implementation of these proposals. As detailed in paragraph 548, it is estimated that the cost of these additional resources may be around £500,000 per annum during the first year of implementation (less in subsequent years).

502. However, it is expected that there will be administrative savings for the Housing Department as a consequence of discontinuing the rent rebate

scheme. Therefore, it should be recognised that some of the additional staffing costs, in relation to the increase of permanent posts within supplementary benefit, will be offset through either a redeployment of a number of the Housing Department's staff or, more likely, through a budget transfer. The detail of this redistribution is still to be finalised but is expected to represent the equivalent of 2 – 3 full-time positions at an estimated cost of £70,000.

Table 30 – Financial analysis showing the estimated cost to General Revenue of implementing the proposals described in this report (excluding estimated staffing costs)

Requirement rate	Benefit limitation	Number of claims impacted by benefit limitation	Total no. of eligible claims	New eligible claims	Current annual cost (2013 terms) £m	New annual cost for current claims £m	Additional cost for current claims £m	Net annual cost for new claims £m	Adjust for short term rates paid for 12 months £m	New net annual cost - all claims[29] £m
Option 1	£500	331	2,994	990	30.94	31.61	0.67	1.79	N/A	**2.46**
Current baseline	£550	165	3,027	1,023	30.94	32.23	1.33	1.81	N/A	**3.14**
(2013 benefit rates)	£650	38	3,055	1,051	30.94	32.79	1.86	1.81	N/A	**3.66**
Option 2	£500	692	3,158	1,097	30.94	35.43	4.50	2.18	(0.26)	**6.42**
Rates proposed in March 2012	£550	397	3,211	1,150	30.94	36.70	5.76	2.25	(0.33)	**7.68**
(uplifted by RPIX)	£650	156	3,259	1,198	30.94	37.97	7.03	2.28	(0.36)	**8.95**
Option 6 **Recommended**	£500	381	3,010	997	30.94	32.29	1.35	1.84	(0.49)	**2.70**
Rates set in relation to median household income	£550	183	3,047	1,034	30.94	33.01	2.08	1.86	(0.53)	**3.41**
	£600	85	3,067	1,054	30.94	33.37	2.44	1.86	(0.55)	**3.75**
	£650	23	3,074	1,061	30.94	33.52	2.58	1.86	(0.58)	**3.85**

[29] The data presented in table 30 has been independently rounded to two decimal places. Therefore the individual figures may not always add to the totals shown.

FACTS AND FIGURES

Closing the rent rebate scheme

503. If the Housing Department withdrew the rent rebate scheme tomorrow, each tenant would be charged the full standard weekly rent for their property. This would undoubtedly lead to a sudden increase in the number of people claiming supplementary benefit, as some social housing tenants are only able to support themselves financially because of their rent rebate.

504. While the withdrawal of the rent rebate scheme would put Housing Department tenants in the same position as tenants living in the private rental sector, it is important to acknowledge that closing the rent rebate scheme down immediately, especially with no increase in the rates of supplementary benefit paid or the benefit limitation, would have a seriously detrimental effect on some of the Housing Department's tenants.

505. It is estimated that dissolving the rent rebate scheme, even without any changes being made to the rates of supplementary benefit or the benefit limitation, would add an estimated £0.67m to the cost of providing benefit to those currently living in social housing.

506. Removing the rent rebate scheme will generate approximately 700 new supplementary benefit claims from people living in social housing. Many of these households are not currently eligible for supplementary benefit but, as in the wider community, the model has identified some who appear to be eligible now, but choose not to claim.

507. In terms of financial support, the only way Housing Department tenants could mitigate against the effects of the rent rebate scheme's closure, would be to claim supplementary benefit, resulting in a net increase cost to the States. The increase in overall cost is caused because, by increasing the rents charged to social housing tenants (through the removal of the rent rebate scheme) there is an increased likelihood that people affected by the change will claim both what they lose in rent rebate and the amount they are currently entitled to but are not claiming.

508. Any social housing tenants who choose to claim supplementary benefit in the future will also become entitled to claim winter fuel allowance and fringe benefits (such as primary medical care), the cost of which is included in the estimate provided in paragraph 505 above.

509. A further cost is implied by the risk that people living outside of social housing, who are not currently claiming supplementary benefit, but have been identified through the model as being eligible, will choose to claim in the future. If the assumptions made regarding the likelihood of such people

claiming are accurate, this represents an additional cost of £1.79m, bringing the total cost to £2.46m (under current supplementary benefit rules).

510. It is important to acknowledge that the impact on social housing tenants (almost 2,000 households) may vary considerably from household to household. It is estimated that, if the rent rebate scheme is removed with no further change in the supplementary benefit system, approximately half of the current housing tenants will not be affected financially by more than £10 per week, after the payment of rent, (may be better or worse off by between £0 and £9.99). Approximately one quarter may be better off overall.

511. However, for the remaining 25% of tenants (approximately 500 households) the withdrawal of the rent rebate scheme could have a negative financial implication. A minority may be worse off to a very considerable amount with approximately 3% effectively losing, or suffering increased costs of, more than £100 a week. This is because they either, already claim the maximum amount of supplementary available to them (restricted by the benefit limitation) or they would be ineligible to claim under the current supplementary benefit criteria.

512. The Department acknowledges that by simply removing the rent rebate scheme, without any mitigation, would have a detrimental impact on some social housing tenants, some of whom could experience significant financial difficulties as a result of this change. For all the solid arguments for removing the rent rebate scheme, it is not possible to simply disregard the social costs of withdrawing this support. The Department is fully aware that the changes being proposed will impact on the lives of real people. Therefore, in order to achieve the goal of closing the rent rebate scheme and creating one system of rent and income support, the Department recommends an appropriate transition from one scheme to the other.

Reformed supplementary benefit scheme

513. The effect of closing the rent rebate scheme is lessened, to some extent, by the Department's proposed increases in the benefit rates and benefit limitation, but is not removed entirely.

514. Through this review the Department has had to achieve a balance between meeting the needs of low-income households and affordability. The closure of the rent rebate scheme is clearly a key aspect in ensuring that people are treated equally, that all low income households have the same access to financial support when required, and that the provision of means-tested States support is rationalised.

515. However, the Department does not consider that it would be reasonable or appropriate to close down the rent rebate scheme, without also making some adjustment to the supplementary benefit scheme. The cost of up to £2.46m

for simply withdrawing the rent rebate scheme, with no change to the supplementary benefit requirement rates or the benefit limitation, coupled with the detrimental financial impact it would have on many social housing tenants would not, in the Department's opinion, demonstrate responsible policy development. Furthermore, it should be recognised that the Department's proposals are only estimated to cost £1.29m more, than the cost of simply closing down the rent rebate scheme.

516. As described in paragraphs 497 to 498, in order to strike a fine and appropriate balance the Department considers that the rates of benefit paid through supplementary benefit should be increased and the overall supplementary benefit limitation should be raised to £600 in 2015 and to £650 in 2016. In parallel, the Housing Department will close down the rent rebate scheme from 2015.

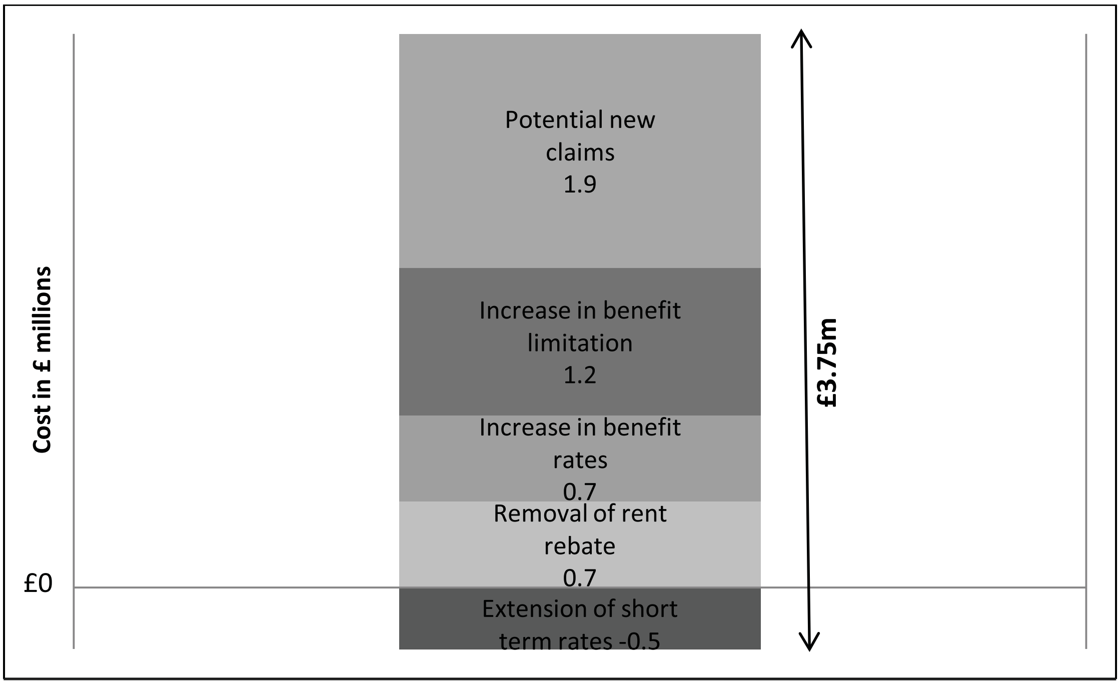
517. The results of the financial modelling estimate that under the Department's recommendations, approximately 1,054 new claimants would become eligible to supplementary benefit support from 2015, if the rates of supplementary benefit were increased and the benefit limitation was raised to £600. Many of these additional claims, but not all, would arise from people living in social housing.

518. The estimated additional cost of these proposals (£3.75m) will be above the current total joint costs of the supplementary benefit and rent rebate schemes. The overall cost implication to General Revenue is shown in table 31 below. A detailed breakdown of the estimated net new annual cost of these proposals is further displayed in figure 5 overleaf.

Table 31 - Estimated overall cost implications of proposals

	Annual cost (£m)
Combined 2012 actual cost of supplementary benefit and rent rebate schemes	31.55
Estimated net new annual cost of proposals (2013 terms)	3.75
Total estimated annual cost of reformed supplementary benefit scheme	**35.30**

Figure 5: Breakdown of costs for Option 6, with a benefit limitation of £600 (rounded figures)



*Due to the effects of rounding, figures may not sum to total

519. As a result of the changes being proposed, approximately 40% of the current social housing tenants will not be affected financially by more than £10 per week (after the payment of rent) and approximately the same percentage may be better off overall.

520. However, even with increased supplementary benefit rates, and an increased benefit limitation of £600 (in 2015), some households will still be financially worse off. For the remaining 20% of social housing tenants (approximately 400 households), these changes are expected to have a negative financial impact, albeit to a much lesser extent. Furthermore, a benefit limitation of £600 is estimated to impact on 85 supplementary benefit households, many of whom will be living in social housing. A further 17 households (15 of which are living in social housing) would be prevented from claiming supplementary benefit due to the existence of the benefit limitation.

521. While social housing tenants are expected to be most affected by these changes (as further detailed in paragraphs 524 to 536), the Department recognises that a very small number of households, living outside of social housing, may be financially worse off as a result of these propositions. The Department will consider these cases on an individual basis and, where appropriate, will use its discretionary powers to mitigate against some of these negative effects.

522. Table 32 below, shows the number of claims impacted by the benefit limitation at various increments if supplementary benefit rates increased to the levels outlined in paragraph 448.

Table 32 - The number of households affected by the benefit limitation and their family composition (using proposed benefit rates in option 6)

Benefit limitation	**Total number of claims impacted by the benefit limitation** (social housing and private tenants)	**Total number of households prevented from claiming due to the benefit limitation** (social housing and private tenants)	**Number of dependent children in household**					**Other categories**
			1	**2**	**3**	**4**	**5+**	
£500	381	93	31	169	154	58	37	25
£550	183	46	0	62	84	40	36	7
£600	85	17	0	10	28	34	30	0
£650	23	8	0	1	6	3	21	0

523. While a significant number of households would be better off if the current benefit limitation of £500 was increased by any amount, there are very few households that would be affected by a benefit limitation of £650, being the Department's ultimate aspiration.

Impact on social housing tenants of closing the rent rebate scheme

524. 95% of Housing Department tenants and some 75% of Guernsey Housing Association tenants receive a rent rebate; in other words, the rent they are charged is reduced, leaving them with more money to put towards other expenses. All social housing tenants subsist on a low income, otherwise they would not be eligible for social housing, and so for many households the rent rebate is essential. In 700 cases, the rent rebate scheme is the only thing that enables a family in social housing to avoid making a claim to supplementary benefit.

525. In the absence of the rent rebate scheme, all social housing tenants would be charged the Standard Weekly Rent (SWR), which ranges from £110 to £330 a week.

526. For example, a tenant with a standard weekly rent of £250 per week who is currently being charged a rebated rent of £100 will be receiving a rent rebate worth £150. When the rebate scheme closes and the SWR is charged they would be £150 per week worse off.

527. In the event of the loss of their rent rebate, the only way in which a tenant can be financially compensated is through the supplementary benefit scheme. The tenant may already be in receipt of supplementary benefit; they may not.

528. If a rebated tenant is already in receipt of supplementary benefit when the rent rebate scheme closes, they are likely to be entitled to an increased amount of supplementary benefit, because their weekly rent allowance would need to be increased to cover the new standard weekly rent. Note, however, that this in itself would not make them any better off overall, but would leave them with the same amount of income that they had when the rent rebate scheme was in operation.

529. If the benefit limitation was increased, social housing tenants with larger families who are already claiming supplementary benefit might actually be better off once the rent rebate scheme closes: this is because their increased rental costs would be covered in full by the maximum rent allowance, while the higher benefit limitation would allow for larger benefit payments. (It should be noted, however, that social housing tenants with older children may be worse off overall because of the reduction in the amount of benefit payable in respect of children over 12 – see paragraph 448.)

530. Some social housing tenants who lose their rebate and who are not currently entitled to supplementary benefit will find themselves entitled to a top-up. The extent to which such a top-up compensates the tenant for the loss of the rent rebate depends on the tenant's circumstances: some tenants will find that their new supplementary benefit payment not only compensates them fully for the loss of their rebate, but leaves them with more money than they had before. Again, this would be the result of an increased benefit limitation and the fact that, for six months of the year, they would be entitled to a weekly fuel allowance. Additionally, if the tenant or their partner or children frequently visited the doctor, they would have their medical bills paid for through the supplementary benefit scheme.

531. Some tenants will, however, lose out. They will lose their rent rebate and will either be ineligible to claim supplementary benefit (because of relatively high household income, or savings, or both); or they will be eligible to claim, but the benefit limitation caps the amount of support to which they are entitled, leaving them with less than before.

532. Put simply, the higher the benefit rates, the benefit limitation and the maximum rent allowances, the greater number of tenants who stand to be compensated fully for the loss of their rebate, and who might become better off overall as a result of the integration of the supplementary benefit and rent rebate schemes. Conversely, if benefit rates are not increased, and if the benefit limitation is held down, and if maximum rent allowances fail to cover the standard weekly rents charged by the Housing Department and the Guernsey Housing Association, large numbers of social housing tenants will have their already low incomes further reduced.

533. It is estimated that dissolving the rent rebate scheme, even without any changes being made to the rates of supplementary benefit or the benefit limitation, would add an estimated £0.67m per annum, as the supplementary benefit scheme would have to pay higher rent allowances to cover the Standard Weekly Rents being charged by the Housing Department. The £0.67m also includes 'unclaimed benefit', i.e. the supplementary benefit that tenants would be entitled to claim now but for whatever reason choose not to.

534. The Housing Department would not support the closure of the rent rebate scheme unless and until the supplementary benefit scheme is modernised; in this specific context, 'modernisation' means new benefit rates, a higher benefit limitation, and the introduction of maximum rent allowances. Closing down the rebate scheme without these changes being made leave the majority of social housing tenants worse off. Some may be worse off by over £150.00 a week.

535. Appendix 2 shows that if the States adopts the proposals outlined in this report, and if every social housing tenant exercises their right to claim supplementary benefit under the resultant new scheme, a majority of social housing tenants [approximately 800] would, on long-term rates, be better off. Where someone has become eligible for supplementary benefit for the first time, and is better off overall as a result of these changes, this will in most cases be the result of a higher benefit limitation and the payment of winter fuel allowance.

536. Social housing tenants who have not claimed supplementary benefit before will of course be subject to the same rules governing payment as other claimants. For example, when a couple without children (or a couple with older children) are claiming supplementary benefit, both will be expected to look for work or face losing their benefit. If one half of the couple is working, the other must look for work, as the additional income from a second job will reduce the family's reliance on financial support from the States.

Transitional Arrangements

537. Appendix 2 shows that approximately 400 social housing tenants will be financially worse off (by more than £10.00 per week) as a result of the closure of the rent rebate scheme and the implementation of the changes to the supplementary benefit scheme recommended by the Department. Some tenants stand to be worse off by over £150 per week.

538. There are several reasons why some social housing tenants will lose out as a result of these changes:

a) While the tenant will become entitled to supplementary benefit, the benefit limitation (even at £600 to £650) will prevent them receiving the full amount of benefit dictated by the requirement rates; and as a result they will not be fully compensated for the loss of their rent rebate. In these cases, the tenant is likely to have older children, and/or a large number of children.

b) The tenant is not entitled to supplementary benefit because they already earn more than the supplementary benefit requirement rates say that they need. Under the rent rebate system they would have been entitled to a modest rebate, which will no longer be available if the proposals in this report are adopted.

c) The tenant is already on supplementary benefit, and is fully compensated for the loss of the rebate, but the reduction in the amount of money paid in respect of children aged 12 to 18 leaves them with less money than they had previously.

539. In the case of (a) and (c), the Department notes that social housing tenants will be in no worse a position than tenants in the private rented sector. In the case of (b), while tenants are still worse off, they are nonetheless wealthier, relatively speaking, than anyone in receipt of supplementary benefit.

540. The Social Security Department supports the Housing Department's plans to put in place special transitional arrangements to protect, for a maximum period of five years, those social housing tenants who stand to be adversely affected financially through the closure of the rent rebate scheme. It is likely that the proposed arrangements will involve the Housing Department phasing the increase in certain tenants' rent, probably in an annual increase of no more than £25 per week (over and above standard rent increases), rather than moving straightaway from the rebated rent to the full Standard Weekly Rent. Initial estimates suggest that these arrangements may cost in the region of £800,000 in total over the five year transitionary period, although more detailed work is required to determine the exact scope and application of these arrangements and the source of funding. It is recommended that the Housing and Treasury and Resources Departments be directed to determine a

mechanism and the source of funding by which, over a maximum transitional period of five years, those social housing tenants whose financial circumstances are affected adversely by the discontinuation of the rent rebate scheme, may have those effects mitigated.

541. These arrangements will apply to all social housing tenants who are in receipt of a rebate at the point at which the rent rebate scheme is closed down.

Additional resources

542. In addition to the increased cost of formula-led supplementary benefit, there will be additional staffing and expenditure implications relating to the implementation of these proposals. The expenditure on additional staff resources takes into account new roles, an increase of existing roles, temporary contract and transitional staff, which would be needed to adequately resource the supplementary benefit section in the short and medium term.

543. Some of the additional staffing posts required will be permanent in order to manage the new claims expected from social housing tenants, as the rent rebate scheme is withdrawn, and from members of the community who might, for the first time, qualify for an income top-up from supplementary benefit.

544. It is expected that 7 permanent posts will be required in the long-term, to handle the additional claims expected to be seen following these changes. These additional staff will work closely with individual households ensuring that work expectations are correctly applied and that people are fulfilling their specific obligations. In addition to the completion of new claim forms (which on average take about 45 minutes each), staff will also undertake regular work focused meetings and reviews, apply sanctions, reassess benefit entitlement and deal with the expected increase in complex casework (some of which will require a multi agency approach).

545. Additionally, a further 3.5 contract and 2.5 transitional staff may be needed to adequately resource the initial phase and implementation of a modernised supplementary benefit scheme. The Department intends to recruit these posts as it will be able to more easily adjust staff numbers downwards, once the resourcing implications of the new scheme are fully known. These additional resources compare with approximately 25 full-time equivalents currently employed within the supplementary benefit section. The ratio of new staff to anticipated new benefit claims is broadly in line with the current ratio of staff to benefit claims.

546. However, it is expected that there will be administrative savings for the Housing Department as a consequence of discontinuing the rent rebate scheme. Therefore, it should be recognised that some of the additional

staffing costs, in relation to the increase of permanent posts within supplementary benefit, will be offset through either a redeployment of a number of the Housing Department's staff or, more likely, through a budget transfer. The detail of this redistribution is still to be finalised but is expected to represent the equivalent of 2-3 full-time positions at an estimated cost of £70,000.

547. Additionally, as part of the Financial Transformation Programme, the Department commenced a business improvement project within the supplementary benefit section in 2012. This project is utilising the skills of a business analyst to help examine all the section's business processes in order to identify efficiencies and smarter ways of working. The Department is confident that this project will also identify resource savings and these will be offset against some of the new estimated staffing costs outlined in table 33.

548. A summary of the estimated staffing and expenditure costs are set out in table 33 below.

Table 33 - Estimated staffing and expenditure costs

Staffing/Resources Requirement	Staff Number	Estimated Cost (2013 terms)
Established staff	7	£279,536
Contract staff	3.5	£138,366
Transition staff	2.5	£94,486
PCs/equipment	N/A	£5,000
Total Year 1 costs		**£517,388**
Total Year 2 costs		**£422,902**
Year 2 less cost of contract staff		**£284,536**

The additional staffing costs include 20.6% 'on-costs' – for employers social insurance contributions and employers pension contributions etc.

549. Further to the above, additional staff will be required in order to deliver the work incentivisation proposals for current supplementary benefit claimants (as previously agreed by the States in March 2012), However, these additional resources are subject to approval through the Financial Transformation Programme and will result in lower net expenditure.

Funding

550. The cost of up to £2.46m for simply withdrawing the rent rebate scheme, coupled with the detrimental financial impact it would have on almost 500 social housing households, (3% of which would be impacted by more than £100 a week) would not, in the Department's opinion, demonstrate responsible policy development. Furthermore, it should be recognised that reform, as proposed in this report, is only estimated to cost £1.29m more than the cost of simply closing down the rent rebate scheme and dealing with the harmful social impact which would result.

551. Having regard to the current state of public finances and the constraints of the fiscal framework, the Department believes that the funding necessary to give effect to these proposals should be identified through the work of the Personal Tax, Pensions and Benefits Review.

552. In this regard, it is anticipated that particular reference will be made to the redistribution of some universal benefits which are wholly or partly financed from General Revenue. The freeze on family allowance referred to in paragraph 212, results in a cost avoidance of in the order of £200,000 in 2014.

553. An alternative method of funding the cost of these proposals would be to ask the States to relax the objective within the Fiscal and Economic Plan of *a real terms freeze on aggregate revenue expenditure*, a request which the Social Security Department is not prepared to recommend.

554. For the avoidance of doubt, if the proposals set out in Part V of this report are approved by the States, they will not be implemented until the source of funding has been identified. As the Social Security and Treasury and Resources Departments are not scheduled to report back to the States on the outcome of the Personal Tax, Pensions and Benefits Review until mid-2014, the earliest implementation date for these proposals will be January 2015.

555. The Department believes that this represents a measured, balanced and pragmatic solution where changes will only be implemented once funding has been secured.

Implementation

556. The Social Security Department recognises that as a result of such a sudden increase in expenditure, the changes being proposed will need to be introduced once the necessary funding has been agreed and additional staff resources are in place. From a practical viewpoint, this will ensure the Department is equipped to handle the expected increase in new supplementary benefit claims.

557. As detailed in paragraph 554 above, the Department does not intend to implement any of these propositions until January 2015, allowing the States time to consider the forthcoming recommendations of the Personal Tax, Pensions and Benefits Review.

558. Therefore, the Department intends to implement proposals along the following lines:-

Year 1 (2015) includes the following proposals:-

- To increase requirement rates as outlined in paragraph 448
- To introduce maximum rent allowances
- To increase the benefit limitation to £600

- To discontinue the rent rebate scheme

Year 2 (2016) includes the following proposals

- To further increase the benefit limitation to £650

CONCLUSION

559. Increasing the supplementary benefit requirement rates and raising the benefit limitation as proposed in this report will come at a financial cost. This should however, be seen as an important and positive development in social welfare provision.

560. The Social Security Department believe that a properly functioning welfare system should provide all Islanders with an income sufficient to maintain a reasonable standard of living. Provided that Islanders are demonstrably doing all they reasonably can to support themselves, any shortfall between household income and reasonable ongoing expenses should be met by the States.

561. The propositions contained within this current report further enhance the package of reforms which have already received States approval. Through these propositions the Department seeks to ensure that all low income households have the same access to financial support when required, that this financial support is reasonable, and that it aligns with the expectations of other households across Guernsey and Alderney.

562. Importantly propositions also make provision for the closure of the rent rebate scheme, which will reduce the potential for inequality of treatment between those in social housing and those living in the private rental sector, and will provide parity across all low-income households.

563. The rent rebate scheme cost the Housing Department around £11.78m in 2012, of which £1.48m related to the cost of providing rent rebates to nominated Guernsey Housing Association tenants. Therefore, the combined cost of the rent rebate and supplementary benefit schemes in 2012 was approximately £31.55m.

564. If the proposals contained within this report are adopted, Housing, Social Security and Treasury and Resources will establish a mechanism to ensure that monies are made available to reflect the changes in budgetary responsibility.

565. As detailed in paragraphs 503 to 512, it is estimated that closing down the rent rebate scheme, even without making any changes to the rates of supplementary benefit or the benefit limitation, would add an estimated £0.67m to the cost of providing benefit to those currently living in social housing. A further cost is implied by the risk that people living outside of

social housing, who are not currently claiming supplementary benefit, but have been identified through the model as being eligible, will choose to claim in the future. The likelihood of such people claiming supplementary benefit represents an additional cost of £1.79m, bringing the total cost of simply removing the rent rebate scheme to £2.46m (under current supplementary benefit rules). It is recognised that such a move would also have significant social consequences for those households most affected by this change.

566. While this review is not about ensuring that in a revised supplementary benefit scheme no household is worse off as a result of change, the Department has a clear responsibility to provide much needed financial assistance and protection to low income households. However, this responsibility also has to be balanced with the need for financial affordability.

567. Through the proposals in this report, the States has an opportunity to close down the rent rebate scheme and establish a reformed supplementary benefit scheme which will, irrespective of tenure, ensure a reasonable standard of living for low income families, while maintaining the incentive to work and take personal responsibility.

568. The detailed financial analysis which has been undertaken indicates that reform, as proposed in this report, will cost in the region of £3.75m (annualised) above the current total joint costs of the supplementary benefit and rent rebate schemes, and will assist approximately 1,000 new supplementary benefit households. This figure represents £1.29m more, than the cost of simply closing down the rent rebate scheme and dealing with the harmful social impact which would result.

569. In addition to the increased cost of formula-led supplementary benefit, there will be additional staffing and expenditure implications relating to the implementation of these proposals. At this stage it is estimated that the cost of these additional resources may be around £500,000 per annum during the first year of implementation (less in subsequent years). However, it is expected that there will be administrative savings for the Housing Department as a consequence of withdrawing the rent rebate scheme; the precise value of such savings needs to be finalised through discussions with the Housing and Treasury and Resources Departments, and used to offset the resource costs quoted above.

570. The Department believes that the proposals contained in this report represent a measured, balanced and pragmatic solution where changes will only be implemented once funding has been secured. As such this continues to meet States objectives for providing appropriate safeguards for vulnerable people whilst exercising restraint in the current financial climate and taking account of the need for long-term benefits and fiscal sustainability.

Consultation

571. The Department has consulted with the Commerce and Employment Department regarding its proposal to increase the rate of the employers' contribution by 0.5%; with the Health and Social Services Department regarding its proposal to transfer responsibility for funding visiting medical specialists from HSSD's General Revenue budget to the Health Service Fund; and with the Housing Department regarding its proposal to make persons residing in a dwelling listed on Part A of the Open Market Housing Register ineligible for a rent allowance through supplementary benefit.

572. The Department has worked in close consultation with the Treasury and Resources and Housing Departments in developing the proposals contained in Part V of this report.

573. The Law Officers have been consulted and have not identified any legal difficulties with the recommendations.

Compliance with the Principles of Good Governance

574. The proposals made in this States Report are in accordance with the Principles of Good Governance as outlined in Billet d'État IV 2011, particularly Principle 1 "focusing on the organisation's purpose and on outcomes for citizens and service users", Principle 2 "performing effectively in clearly defined functions and roles" and Principle 6 "engaging stakeholders and making accountability real".

PART VI
RECOMMENDATIONS

1. The Department recommends:

(i) that, from 1 January 2014, the percentage contribution rate for employers be increased by 0.5%, from 6.5% to 7%;

(paragraphs 23 to 26)

(ii) that, subject to recommendation (i) being approved, from 1 January 2014, the grant from General Revenue to the Guernsey Insurance Fund, be decreased from 15% to 14% of contribution income;

(paragraphs 27 to 31)

(iii) that, for employed persons and employers, the upper weekly earnings limit, the upper monthly earnings limit and the annual upper earnings limit, from 1 January 2014, shall be £2,547, £11,037 and £132,444 respectively;

(paragraphs 63 to 66)

(iv) that, for employed persons and employers, the lower weekly earnings limit and the lower monthly earnings limit, from 1 January 2014, shall be £128.00 and £554.67 respectively;

(paragraphs 69 to 70)

(v) that, for self-employed persons, the upper earnings limit and lower earnings limit, from 1 January 2014, shall be £132,444 and £6,656 per year respectively;

(paragraphs 71 to 75)

(vi) that, for non-employed persons, the upper and lower annual income limits, from 1 January 2014, shall be £132,444 per year and £16,640 per year respectively;

(paragraphs 76 to 79)

(vii) that the allowance on income for non-employed people from 1 January 2014, shall be £7,059 per year;

(paragraphs 80 to 81)

(viii) that the voluntary contribution from 1 January 2014, shall be £18.24 per week for non-employed people;

(paragraphs 82 to 83)

(ix) that the overseas voluntary contribution from 1 January 2014, shall be £87.11 per week for non-employed people and £96.30 for self-employed people;

(paragraph 84)

(x) that the Department be directed to report to the States of Deliberation after the conclusion of the Personal Tax, Pensions and Benefits Review with proposals to achieve long-term sustainability of the Guernsey Insurance Fund;

(paragraph 24)

(xi) that, from 6 January 2014, the standard rates of pension and contributory social insurance benefits shall be increased to the rates set out in table 10 in this Report;

(paragraph 51)

(xii) that, from 1 January 2014, the prescription charge per item of pharmaceutical benefit shall be £3.30;

(paragraph 97)

(xiii) that, from 6 January 2014, the contribution (co-payment) required to be made by the claimant of care benefit, under the long-term care insurance scheme, shall be £186.83 per week;

(paragraph 126)

(xiv) that, from 6 January 2014, nursing care benefit shall be a maximum of £772.87 per week for persons resident in a nursing home or the Guernsey Cheshire Home and residential care benefit shall be a maximum of £413.98 per week for persons resident in a residential home;

(paragraphs 128 to 129)

(xv) that, from 6 January 2014, elderly mentally infirm (EMI) care benefit shall be a maximum of £545.44 per week for qualifying persons resident in a residential home;

(paragraph 130)

(xvi) that, from 6 January 2014, respite care benefit shall be a maximum of £959.70 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home, an elderly mental infirm rate of £732.27 for persons receiving respite care in a residential home and a maximum of £600.81 per week for persons receiving respite care in a residential home;

(paragraph 131)

(xvii) that, from 10 January 2014, the supplementary benefit requirement rates shall be as set out in tables 17 and 18 of this Report;

(paragraph 143)

(xviii) that, from 10 January 2014, the weekly benefit limitations for supplementary benefit shall be:

(a) £500.00 for a person living in the community;

(b) £512.00 for a person who is residing in a residential home; and

(c) £735.00 for a person who is residing as a patient in a hospital, nursing home, the Guernsey Cheshire Home or as an elderly mental infirm resident of a residential home;

(paragraphs 144 to 147)

(xix) that, from 10 January 2014, the amount of the personal allowance payable to persons in Guernsey and Alderney residential or nursing homes who are in receipt of supplementary benefit shall be £29.30 per week;

(paragraph 148)

(xx) that, from 10 January 2014, the amount of the personal allowance payable to persons in UK hospitals or care homes who are in receipt of supplementary benefit shall be £49.36 per week;

(paragraphs 149 to 151)

(xxi) that a supplementary fuel allowance of £30.00 per week be paid to supplementary beneficiaries who are householders from 25 October 2013 to 24 April 2014;

(paragraphs 152 to 153)

(xxii) that the Department be authorised to make the first payment of the supplementary fuel allowance at the proposed new rate in 2013 and in future years, on the last Friday in October, noting that this may be prior to approval of the new rate of the allowance by the States;

(paragraph 154)

(xxiii) that, from 6 January 2014, the rates of attendance allowance and invalid care allowance and the annual income limits shall be as set out in table 25 of this Report;

(xxiv) that an Ordinance is made under the Health Service (Benefit) (Guernsey) Law, 1990 to amend the conditions under which entitlement to specialist medical benefit arises, in order to allow the Department to fund the costs associated with visiting medical specialists from the Guernsey Health Service Fund;

(paragraphs 104 to 114)

(xxv) that the Supplementary Benefit (Implementation) Ordinance, 1971 be amended to allow compensation payments from the Skipton Fund and the back to work bonus to be wholly disregarded for the purposes of a claim to supplementary benefit;

(paragraphs 170 to 180)

(xxvi) that the Supplementary Benefit (Implementation) Ordinance, 1971 be amended so that a deprivation of resources that has the effect of securing a supplementary benefit or increasing the amount thereof may be taken into account when assessing a person's entitlement to supplementary benefit;

(paragraphs 181 to 184)

(xxvii) that the Supplementary Benefit (Implementation) Ordinance, 1971 be amended to make persons residing in a dwelling listed on Part A of the Open Market Housing Register ineligible for a rent allowance;

(paragraphs 185 to 209)

(xxviii) that, subject to funding being made available, and not prior to January 2015:

(a) the rent rebate scheme be closed;

(paragraphs 369 to 392)

(b) maximum rent allowances for families be introduced within the

supplementary benefit scheme;
(paragraphs 393 to 399)

(c) supplementary benefit requirement rates be increased as set out in table 28 of this Report (subject to a suitable indexation as will be proposed in the Department's 2014 Uprating Report);
(paragraphs 448 to 451)

(d) the weekly supplementary benefit limitation for a person living in the community be increased from £500 to £600;
(paragraph 405)

(xxix) that, subject to funding being made available and not prior to January 2016, the weekly supplementary benefit limitation for a person living in the community be increased from £600 to £650;
(paragraphs 405 to 407)

(xxx) that the Social Security Department be directed, in consultation with the Housing Department and the Treasury and Resources Department, to establish the additional staffing resources that will be necessary, not exceeding the level set out in paragraph 548 of this Report;
(paragraphs 542 to 549)

(xxxi) that the Treasury and Resources Department and the Social Security Department be directed to examine the options for funding recommendations (xxviii) to (xxx) as part of the Personal Tax, Pensions and Benefits Review and report back to the States by no later than October 2014;

(xxxii) that the Housing Department and the Treasury and Resources Department be directed to determine a mechanism and the source of funding by which, over a maximum transitional period of five years, those social housing tenants whose financial circumstances are affected adversely by the discontinuation of the rent rebate scheme, may have those effects mitigated;
(paragraphs 537 to 541)

(xxxiii) that the States notes the estimated cost of putting in place those transitional arrangements is £800,000;
(paragraph 540)

(xxxiv) that the Treasury and Resources Department takes account of recommendations (xxviii) to (xxxiii) above in formulating proposals for inclusion in the 2015 and 2016 Budget Reports;

(xxxv) that such legislation as may be necessary to give effect to the foregoing shall be prepared.

Yours faithfully

A H Langlois (Minister)	J A B Gollop	M K Le Clerc	M J Brown
S A James (Deputy Minister)	C J Green	S M Andrade	

Appendix 1

The Minister
Social Security Department
Edward T Wheadon House
Le Truchot
St Peter Port
Guernsey
GY1 3WH

9 August 2013

Dear Deputy Langlois

MODERNISATION OF THE SUPPLEMENTARY BENEFIT SCHEME

It is with considerable reluctance that the Housing Department offers its support to the Social Security Department's proposals to 'modernise' the Supplementary Benefit Scheme.

Our reservations can be summarised as follows.

First, it considers that the Report has been unnecessarily rushed and, as a result, is incomplete in its coverage and in its explanation of the policy changes proposed.

Secondly, by focusing virtually exclusively on the assimilation of the Rent Rebate Scheme within Supplementary Benefit, an opportunity has been missed to review the adequacy of benefit rates in their own right.

Thirdly, if the Report is to be so narrowly focussed, then the Housing Department considers that it should have been a joint States Report.

Fourthly, the insistence that the Report be considered by the States in October has not allowed the Housing Department the time to develop, cost and agree with Treasury and Resources an appropriate mechanism for the transitional arrangements that will need to apply, in order to soften the impact on those social housing tenants who will be 'out of pocket' as a result of adopting the proposals put forward. This will make it very difficult for ourselves and the Guernsey Housing Association to communicate meaningfully to our tenants what the impact of the changes will be for each of them, thereby creating unnecessary worry and anxiety.

Fifthly, in setting new benefit rates, there has been no attempt to provide an objective rationale for the sums payable.

Sixthly, despite the political difficulties encountered with a similar approach in March 2012, the actual sources of funding for the increased expenditure have still not been identified and therefore the total amounts of money available for benefit reform have yet to be determined.

Why, then, is Housing prepared to offer reluctant support? There are three reasons:

1) The Housing Department agrees that it makes no sense for the Island to administer two means-tested benefit schemes, particularly when there is a large degree of overlap between the two, with some 700 social housing tenants claiming both a rent rebate and supplementary benefit;
2) If the Rent Rebate Scheme is to be closed down, the increased benefit limitation from £500 to £650 will ensure that a large percentage of social housing tenants who 'migrate' to Supplementary Benefit are compensated, or part-compensated, for the loss of their rebate;
3) An increase in the benefit limitation will go a long way in improving the quality of life of low-income families with older children and/or high rents.

However, Housing had expected that SSD's latest proposals for modernising the Supplementary Benefit Scheme would have as their centrepiece a new set of benefit rates that were proven to meet the needs of all low income families. Sadly, this is not the case.

Unlike its proposals in 2012, SSD's report does not read as a commitment to ensure that the Island's poorest are given the financial support they need to meet reasonable expenses and avoid social exclusion; instead, it reads as if the entire purpose of bringing these current proposals to the States is to collapse the Rent Rebate Scheme and remove inequality of treatment between social housing and private sector tenants. This represents a significant narrowing of scope and ambition.

From Housing's perspective, the closure of the Rent Rebate Scheme has always been dependent on a review of the adequacy of supplementary benefit rates and the creation of a new set of rates that are proven to meet the needs of low-income families – 'proven' in the sense that the methodology used to arrive at the new rates is robust, credible, transparent and repeatable.

For over 40 years, supplementary benefit rates, in various combinations, have been increased by RPI or similar, to the point where they have long since parted company with any specific assessment of need or understanding of the true costs of living and working in Guernsey. Setting new benefit rates with reference to a particular methodology would enable SSD not only to address these issues, but also to repeat the process at regular intervals, ensuring that benefits continued to provide adequate financial support; but no such methodology is put forward in this Report.

Indeed, although the Housing Department – and your predecessors - consider setting benefit rates with reference to the Minimum Income Study findings to be the most appropriate methodology to achieve these aims, use of this methodology has been dismissed without any adequate explanation of why. Indeed, no attempt is made to explain why SSD is confident that the new benefit rates are sufficient.

It follows that, in the absence of any credible methodology for setting them, the Housing Department is extremely disappointed that the new rates of benefit proposed are not that different to the existing ones; in fact, in some instances, SSD is proposing that claimants are paid less. Modest gains in the amount paid to couples and single adults are more than outweighed by reductions in the amount paid in respect of children at secondary school.

In 2011 and 2012 – when the States considered the joint SSD/Housing Green Paper and the first SSD States Report on the modernisation of the Supplementary Benefit Scheme – both SSD and Housing felt strongly that the welfare system should treat all low income households equally; but added, crucially, that 'equal treatment' was not, in itself, enough: the welfare system had to be built upon a set of benefit rates that would leave low income households, irrespective of tenure, with enough money to fund a socially-acceptable standard of living. The Green Paper also explained that, in addressing those inequalities, the States had an opportunity to carry out bold and more progressive reforms that would help alleviate poverty in the Island.

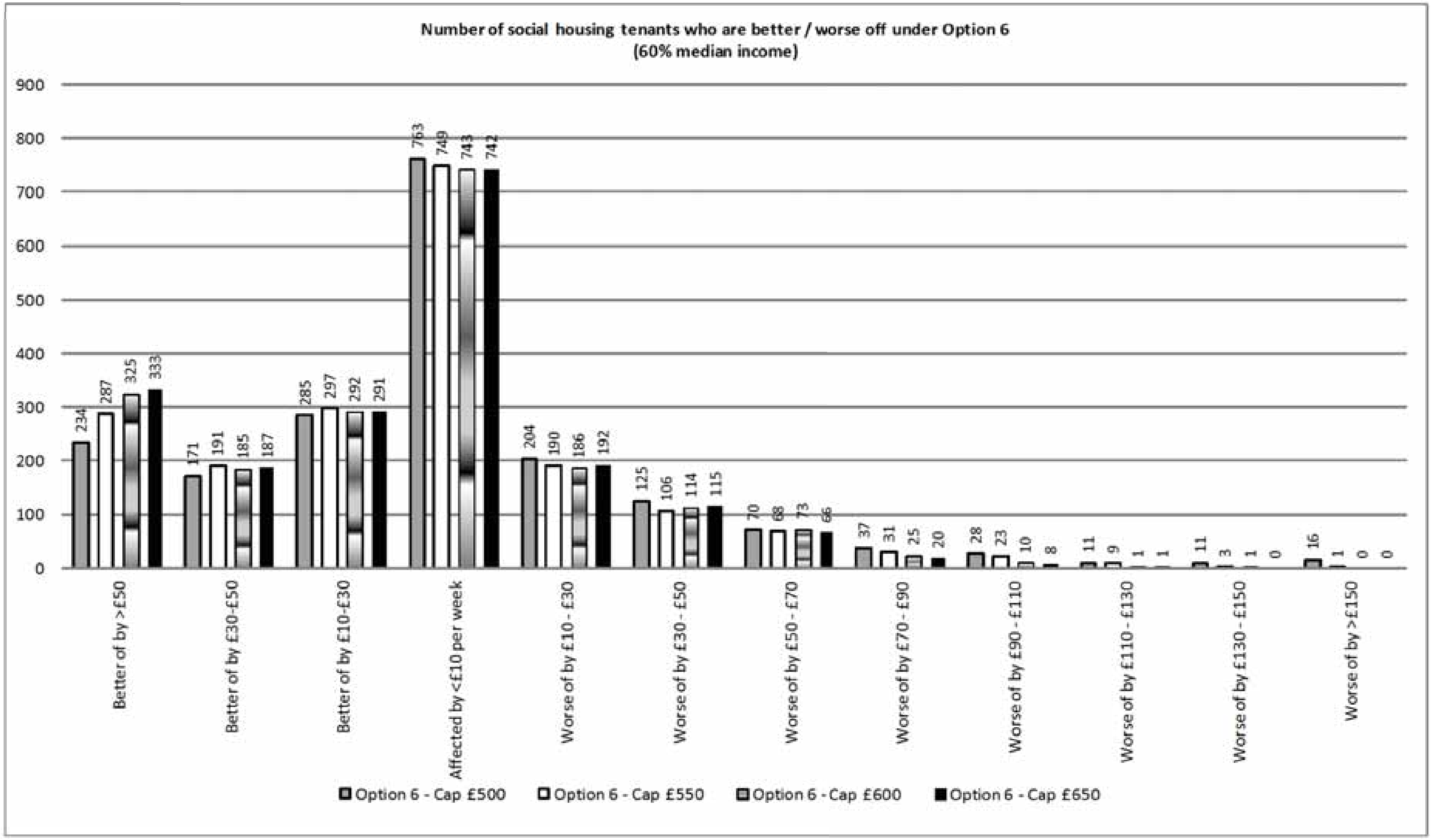
In Housing's view, the current Report falls well short of those aims and does little more than transfer social housing tenants to Supplementary Benefit – a valuable initiative in itself - but a major missed opportunity to truly 'modernise' Supplementary Benefit.

Accordingly, the Housing Department considers it essential that this letter of comment be appended to your Report to make States Members aware of the reasons for Housing's reluctant support for your proposals.

Yours sincerely

D Jones
Minister

Appendix 2



Number of social housing tenants who are better / worse off under Option 6
(60% median income)
900
800
700
600
500
400
300
200
100
0
234
287
325
333
171
191
185
187
285
297
292
291
763
749
743
742
204
190
186
192
125
106
114
115
70
68
73
66
37
31
25
20
28
23
10
8
11
9
1
1
11
3
1
0
16
1
0
0
Better of by >£50
Better of by £30-£50
Better of by £10-£30
Affected by <£10 per week
Worse of by £10 - £30
Worse of by £30 - £50
Worse of by £50 - £70
Worse of by £70 - £90
Worse of by £90 - £110
Worse of by £110 - £130
Worse of by £130 - £150
Worse of by >£150
Option 6 - Cap £500
Option 6 - Cap £550
Option 6 - Cap £600
Option 6 - Cap £650

(NB The Treasury and Resources Department has commented as follows:

TREASURY AND RESOURCES
A STATES OF GUERNSEY GOVERNMENT DEPARTMENT

Treasury and Resources
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The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port
GUERNSEY
GY1 1FH

6 September 2013

Dear Deputy Harwood

SOCIAL SECURITY DEPARTMENT – BENEFIT AND CONTRIBUTION RATES FOR 2014 AND MODERNISATION OF THE SUPPLEMENTARY BENEFIT SCHEME

The Department supports the proposals to increase 2014 contributory benefit rates, Supplementary Benefit rates and Attendance and Invalid Care allowances by the June 2013 RPIX figure. The Department commends the Social Security Department for achieving total net recurring savings of £565,000 through an FTP project to introduce a new incapacity claim management process into the supplementary benefit system.

However, whilst fully recognising the need for there to be an adequate benefits system in place and that claims are demand led, the Department notes, with concern, a further real terms increase in the cost of General Revenue funding for Non- Contributory Benefits:

	2011 Actual £'000	**2012 Actual £'000**	**2013 Budget £'000**	**2013 Latest Estimate £'000**	**2014 Estimate £'000**
Attendance and Invalid Care Allowances	3,388	3,749	4,065	4,140	4,630
Family Allowances	9,308	9,564	9,870	9,870	9,870
Supplementary Benefits	17,951	19,774	#20,200	20,980	21,690
Concessionary TV Licences	577	586	600	615	630
TOTAL	**31,224**	**33,673**	**34,735**	**35,605**	**36,820**
Increase on previous year		7.8%	3.2%	5.7%	*6.0%

#Before reduction for the net savings achieved through the FTP project.
*Percentage increase applied to the 2013 original budget estimate.

The additional estimated costs of £870,000 in 2013 will be met by an anticipated £485,000 decrease in the States grants to the Social Insurance and Health Service Funds and projected underspends by other Departments or from the Budget Reserve.

As the States have agreed that one of the objectives within the Strategic Plan for Fiscal and Economic Policy is a real terms freeze on aggregate revenue expenditure, a real terms increase in 2014 for General Revenue funded formula-led non contributory benefits will result in a real terms reduction in the budget available for Non-Formula Led expenditure. This reduction will be in addition to the Financial Transformation Programme targets.

The Treasury and Resources Department does not support the recommendations for a 0.5% increase in the percentage contribution rate for employers and a 1% reduction in the grant from General Revenue to the Guernsey Insurance Fund from 1 January 2014. Whilst fully cognisant of the need to secure the long-term sustainability of the Social Security Funds, Members are of the view that any changes necessary, whether relating to contributions, benefits or retirement age, would be more appropriately addressed as part of the Personal Tax, Pension and Benefit Review.

The Treasury and Resources Department is firmly of the view that proposals for the modernisation of the Supplementary Benefit Scheme should not be presented to the States prior to consideration of the Personal Tax, Pension and Benefit Review. This is because Members feel that any significant changes to benefit structure and levels should, at least at the higher level, form an integral part of the wider Review, together with the associated funding implications.

Members consider that the States Report should include further detail and justification in some areas, in particular in respect of the transitional arrangement for closure of the Housing Department rent rebate scheme which has not been fully formulated and costed or a funding source agreed. Members were also concerned at the additional cost of staffing requested to administer the revised supplementary benefit scheme of £517k in Year 1, £423k in Year 2 and thereafter £285k per annum on an ongoing basis with only £70k of reduced costs expected in the Housing Department.

I should like to stress that it should not be inferred from the above that the Board does or does not support the principle of modernising the Supplementary Benefit Scheme including the closure of the Housing Department's rent rebate scheme or the specific proposals to achieve this contained in the States Report.

Yours sincerely

Gavin St Pier
Minister)

(NB The Policy Council notes that the report can be read as two distinct 'parts': Sections I-IV, annual uprating proposals; and Section V, the completion of modernisation of supplementary benefit. The Policy Council Comment is correspondingly broken into two parts.

Sections I-IV, Uprating - The Policy Council supports the report except for the following: a number of members of Policy Council are not convinced of the merits and timing of the proposed increase in employers' contributions, as stated in paragraph 23, nor the merits of the corresponding decrease in States Grant, as stated in paragraphs 27-31. However, a majority believe these two issues should be debated and included in the report and therefore support their inclusion in the report.

Section V, Supplementary Benefit Modernisation - The Policy Council supports the inclusion of this section in the report, despite reservations expressed by some, as it believes that a debate needs to, and must be, had on the level of benefits that is appropriate and affordable to enable progress on modernising supplementary benefit to be made within this States term. Noting the Treasury and Resources Department's comments, the Policy Council, by a majority, supports the report in principle, given that progression of the proposals, by January, 2015 at the earliest, is subject to transition arrangements being agreed prior to the regime being introduced and progression is also subject to revenues being identified through the personal tax review.)

The States are asked to decide:-

XI.- Whether, after consideration of the Report dated 12th August, 2013, of the Social Security Department, they are of the opinion:-

1. That, from 1 January 2014, the percentage contribution rate for employers be increased by 0.5%, from 6.5% to 7%.

2. That, subject to proposition 1. being approved, from 1 January 2014, the grant from General Revenue to the Guernsey Insurance Fund, be decreased from 15% to 14% of contribution income.

3. That, for employed persons and employers, the upper weekly earnings limit, the upper monthly earnings limit and the annual upper earnings limit, from 1 January 2014, shall be £2,547, £11,037 and £132,444 respectively.

4. That, for employed persons and employers, the lower weekly earnings limit and the lower monthly earnings limit, from 1 January 2014, shall be £128.00 and £554.67 respectively.

5. That, for self-employed persons, the upper earnings limit and lower earnings limit, from 1 January 2014, shall be £132,444 and £6,656 per year respectively.

6. That, for non-employed persons, the upper and lower annual income limits, from 1 January 2014, shall be £132,444 per year and £16,640 per year, respectively.

7. That the allowance on income for non-employed people from 1 January 2014, shall be £7,059 per year.

8. That the voluntary contribution from 1 January 2014, shall be £18.24 per week for non-employed people.

9. That the overseas voluntary contribution from 1 January 2014, shall be £87.11 per week for non-employed people and £96.30 for self-employed people.

10. That the Department be directed to report to the States of Deliberation after the conclusion of the Personal Tax, Pensions and Benefits Review with proposals to achieve long-term sustainability of the Guernsey Insurance Fund.

11. That, from 6 January 2014, the standard rates of pension and contributory social insurance benefits shall be increased to the rates set out in table 10 in that Report.

12. That, from 1 January 2014, the prescription charge per item of pharmaceutical benefit shall be £3.30.

13. That, from 6 January 2014, the contribution (co-payment) required to be made by the claimant of care benefit, under the long-term care insurance scheme, shall be £186.83 per week.

14. That, from 6 January 2014, nursing care benefit shall be a maximum of £772.87 per week for persons resident in a nursing home or the Guernsey Cheshire Home and residential care benefit shall be a maximum of £413.98 per week for persons resident in a residential home.

15. That, from 6 January 2014, elderly mentally infirm (EMI) care benefit shall be a maximum of £545.44 per week for qualifying persons resident in a residential home.

16. That, from 6 January 2014, respite care benefit shall be a maximum of £959.70 per week for persons receiving respite care in a nursing home or the Guernsey Cheshire Home, an elderly mental infirm rate of £732.27 for persons receiving respite care in a residential home and a maximum of £600.81 per week for persons receiving respite care in a residential home.

17. That, from 10 January 2014, the supplementary benefit requirement rates shall be as set out in tables 17 and 18 of that Report.

18. That, from 10 January 2014, the weekly benefit limitations for supplementary benefit shall be:

    (a) £500.00 for a person living in the community;

    (b) £512.00 for a person who is residing in a residential home; and

    (c) £735.00 for a person who is residing as a patient in a hospital, nursing home, the Guernsey Cheshire Home or as an elderly mental infirm resident of a residential home.

19. That, from 10 January 2014, the amount of the personal allowance payable to persons in Guernsey and Alderney residential or nursing homes who are in receipt of supplementary benefit shall be £29.30 per week.

20. That, from 10 January 2014, the amount of the personal allowance payable to persons in UK hospitals or care homes who are in receipt of supplementary benefit shall be £49.36 per week.

21. That a supplementary fuel allowance of £30.00 per week be paid to supplementary beneficiaries who are householders from 25 October 2013 to 24 April 2014.

22. That the Department be authorised to make the first payment of the supplementary fuel allowance at the proposed new rate in 2013 and in future years, on the last Friday in October, noting that this may be prior to approval of the new rate of the allowance by the States.

23. That, from 6 January 2014, the rates of attendance allowance and invalid care allowance and the annual income limits shall be as set out in table 25 of that Report.

24. That an Ordinance is made under the Health Service (Benefit) (Guernsey) Law, 1990 to amend the conditions under which entitlement to specialist medical benefit arises, in order to allow the Department to fund the costs associated with visiting medical specialists from the Guernsey Health Service Fund.

25. That the Supplementary Benefit (Implementation) Ordinance, 1971 be amended to allow compensation payments from the Skipton Fund and the back to work bonus to be wholly disregarded for the purposes of a claim to supplementary benefit.

26. That the Supplementary Benefit (Implementation) Ordinance, 1971 be amended so that a deprivation of resources that has the effect of securing a supplementary benefit or increasing the amount thereof may be taken into account when assessing a person's entitlement to supplementary benefit.

27. That the Supplementary Benefit (Implementation) Ordinance, 1971 be amended to make persons residing in a dwelling listed on Part A of the Open Market Housing Register ineligible for a rent allowance.

28. That, subject to funding being made available, and not prior to January 2015:

    (a) the rent rebate scheme be closed;

    (b) maximum rent allowances for families be introduced within the supplementary benefit scheme;

    (c) supplementary benefit requirement rates be increased as set out in table 28 of that Report (subject to a suitable indexation as will be proposed in the Department's Uprating Report for 2014);

    (d) the weekly supplementary benefit limitation for a person living in the community be increased from £500 to £600.

29. That, subject to funding being made available and not prior to January 2016, the weekly supplementary benefit limitation for a person living in the community be increased from £600 to £650.

30. That the Social Security Department be directed, in consultation with the Housing Department and the Treasury and Resources Department, to establish the additional staffing resources that will be necessary, not exceeding the level set out in paragraph 548 of that Report.

31. That the Treasury and Resources Department and the Social Security Department be directed to examine the options for funding propositions (28) to (30) in that Report as part of the Personal Tax, Pensions and Benefits Review and report back to the States by no later than October 2014.

32. That the Housing Department and the Treasury and Resources Department be directed to determine a mechanism and the source of funding by which, over a maximum transitional period of five years, those social housing tenants whose financial circumstances are affected adversely by the discontinuation of the rent rebate scheme, may have those effects mitigated.

33. To note that the estimated cost of putting in place those transitional arrangements is £800,000.

34. That the Treasury and Resources Department takes account of propositions (28) to (33) in that Report in formulating proposals for inclusion in the 2015 and 2016 Budget Reports;

35. To direct the preparation of such legislation as may be necessary to give effect to the above decisions.

COMMERCE AND EMPLOYMENT DEPARTMENT

FINANCIAL SERVICES OMBUDSMAN

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

2nd July 2013

Dear Sir

1. Executive Summary

1.1 In this report the Commerce and Employment Department ("the Department") proposes the establishment of a Financial Services Ombudsman ("FSO") in the Bailiwick of Guernsey.

1.2 The FSO will provide an independent dispute resolution service to settle complaints between customers and financial services providers in the Bailiwick of Guernsey.

1.3 This service will determine complaints effectively and expeditiously, based on what is fair and reasonable in all the circumstances and, if a complaint is upheld, can make awards to make good financial loss incurred by a customer.

1.4 In addition, it will be free to the complainant as it will be financed by financial services providers.

1.5 There are potential reputational benefits for the Bailiwick of Guernsey from such a FSO scheme as it will be able to demonstrate that the rights of consumers of financial services products are being dealt with professionally, thereby enhancing Guernsey's status as a first class international finance centre.

1.6 The proposal is partly in response to previous international reports and scrutiny of Guernsey as a financial centre which have strongly suggested that consideration should be given to the introduction of a FSO.

1.7 Guernsey and Jersey are working together on developing a joint FSO scheme. It is proposed to establish a joint FSO scheme between the Bailiwick of Guernsey and Jersey which will require specific legislation for each scheme but which will be drafted in order to allow a FSO scheme common to both islands.

1.8 This report seeks approval in principle for the establishment of a FSO for the Bailiwick of Guernsey and for the drafting of the necessary legislation.

1.9 As a Bailiwick wide scheme approval is required from Sark's Chief Pleas and the States of Alderney.

2. Background and the case for a FSO scheme

2.1 Currently, if a customer of a financial services company operating in the Bailiwick of Guernsey has a grievance they must complain to the organisation in question. If they are not satisfied with the outcome of this complaint, there is no other mechanism by which to take the complaint further, other than taking proceedings in the courts.

2.2 The GFSC cannot act to settle any complaints and does not have any powers to make a decision on the merits of a complaint although it can receive notification and can examine complaints in relation to the entities which it regulates.

2.3 FSO schemes operate in other jurisdictions which offer financial services; they are usually free to the complainant, legal representation is not required and the approach is inquisitorial with the ombudsman impartially investigating complaints. In such schemes a complainant can, after exhausting the complaints procedure of the organisation in question, make representations to the FSO who will take the matter forward in an independent capacity.

2.4 This is especially of value in the field of financial services where the subject matter can be extremely complex and where there may be an imbalance in information, resources and understanding between the parties. Conclusions and potentially binding decisions and determinations are made by the FSO considering not only the legal position but also having regard to what is fair and reasonable in the particular circumstances of the case.

2.5 Ombudsman schemes do not alter the normal relationship between a service provider and the customer but are available as a last resort, if the service provider has had a reasonable opportunity to deal with the complaint but has not satisfactorily resolved it.

2.6 A FSO in the Bailiwick of Guernsey is seen as a positive step for consumers of financial services as it offers them a degree of protection in the event that the services of a local financial services provider fall below the expectations of a customer and the provider has not resolved a complaint to the customer's satisfaction.

2.7 The Bailiwick's economies have a significant financial services sector and it is vital that its reputation is protected and enhanced wherever possible.

2.8 Providers of financial services can also benefit from a FSO as they can demonstrate to their consumers that they operate in a professional environment which has transparent, consistent and independent measures in place to deal with complaints. It can also benefit a service provider as a FSO provides an independent outlet to finally settle a dispute where a provider may feel they have already dealt with the complaint satisfactorily but the customer is not content with a remedy proposed by the provider. After a period of time there will also be a body of FSO decisions which will be a useful source of information on "best practice" in the financial services industry which will assist in improving levels of service provided to the consumer.

2.9 A FSO has been under consideration locally for some time and various reports including the 1999 Edwards Report, the 2009 Foot Review and the 2011 review by the International Monetary Fund, have recommended the consideration of the introduction of ombudsman schemes for financial complaints in the Crown Dependencies.

2.10 The provision of a FSO would also support an application to the European Payments Council for any future membership of the Single Euro Payments Area (SEPA) which would establish an integrated European payments landscape where euro payments are subject to a single, uniform set of standards, rules and conditions for quicker, easier and more secure payments. The Department continues to work with other Crown Dependencies identifying what steps would be needed to make an application to join SEPA.

2.11 It is intended that there would be clear lines of communication between the GFSC and FSO and both would cooperate to understand the volume and nature of any complaints plus any trends with a memorandum of understanding, or similar, between the two entities. There may also be circumstances when the GFSC may choose to suggest that the FSO should not investigate certain complaints if some other action is required, with the FSO maintaining its independence on such occasions.

3. Other FSO Schemes and Jersey

3.1 The majority of developed economies with a financial services sector have some kind of FSO scheme which operates in a way broadly similar to that set out in this report.

3.2 The Financial Ombudsman Service (FOS) in the UK covers financial services provided in or from the UK and it investigates a wide range of financial services.

3.3 The States of Jersey consulted on introducing an ombudsman scheme in 2011 and it has stated that it is committed to introducing an ombudsman scheme for financial services offered in Jersey. It is understood that Jersey intends to enact legislation to create a FSO during 2013 and will then seek approval from the Privy Council with a scheme, beginning to operate in 2014.

3.4 Once Jersey has introduced a FSO scheme Guernsey would be the only European jurisdiction which did not offer consumer protection in the form of alternative (or out of court) dispute resolution of complaints against financial service providers.

3.5 The Isle of Man introduced its Financial Services Ombudsman Scheme in 2002.

4. Consultation on a FSO scheme

4.1 A consultation was carried out in Guernsey by the Department in late 2011. There were ten responses to this consultation and a summary of the responses to this consultation published in 2012.

4.2 The proposal for a FSO had some support from industry, however there was concern expressed in a minority of the responses from the financial services industry about whether there was a proven need for a scheme, the coverage of a scheme and the funding mechanism.

4.3 The proposal in this States Report has taken account of the objective feedback provided to this consultation.

5. Joint Guernsey and Jersey FSO Scheme

5.1 It is proposed to establish a joint FSO scheme between the Bailiwick of Guernsey and Jersey which will require specific legislation for each scheme but which will be drafted in order to allow a FSO scheme common to both islands.

5.2 A Channel Islands scheme is deemed to be the best way forward for the Bailiwick of Guernsey as it would result in the most cost effective and efficient scheme resulting in savings and consistent service levels which is advantageous to the local financial services industry while also offering a dispute resolution alternative to the retail consumers of these services offered in the Channel Islands.

5.3 Many financial services businesses operate in Jersey as well as Guernsey and a common scheme would assist in the integration of operations of businesses across both islands.

5.4 Staff at the Department have been working with colleagues at Jersey's Department of Economic Development with a view to operating a joint FSO scheme which could have a single office, share staff and systems and deal with pan-Channel Islands complaints on a similar basis. There would be considerable benefits from economies of scale and consistency of approach, as compared to each island / jurisdiction operating its own smaller scheme.

5.5 Staff from both Departments have consulted with industry (as set out in paragraph 4.1 for Guernsey) and Guernsey has also worked with the Guernsey Financial Services Commission ("GFSC") and the local branch of the Citizens Advice

Bureau to understand possible numbers of complaints; specific industry working groups were also set up in both islands to consider potential funding models which would be acceptable to the financial services industry.

5.6 In establishing a model for a FSO scheme, the principle aim was to make it as fair to the financial services companies as possible but also to keep any model simple for ease of administration which would allow the FSO to focus on its core business of resolving complaints rather than dealing with unnecessary and overly complicated administration.

6. Establishment of the FSO

6.1 It is crucial that the FSO is independent of the industry about which it considers complaints.

6.2 The scheme will broadly be a body corporate with a public interest, non-executive Board to appoint and protect the independence of the FSO.

6.3 After consultation with the relevant committees of the States of Alderney and Sark's Chief Pleas the Department will appoint the Board members on behalf of the Bailiwick with final approval by the States of Deliberation.

6.4 The FSO Board will consist of a Chairman and at least two board members.

6.5 The FSO Board alone can appoint a person with the appropriate experience and qualifications to act as ombudsman. The intention is to appoint a single Chief Ombudsman to serve both Bailiwicks and the work load will be monitored to determine the appropriate level of resources.

6.6 The FSO will be accountable to the Department on the workings of the scheme but be independent with respect to judgments made under the scheme and accountable through the publishing of an annual report.

7. How the scheme will operate

7.1 The Ombudsman Scheme will be able to consider complaints that are made by an eligible complainant; that relate to financial services business carried on in or from within the Bailiwick of Guernsey and that are within the time limits.

8. Financial Services Covered by the scheme

8.1 The Ombudsman will be able to consider complaints relating to acts occurring in the course of financial services business carried on in or from within the Bailiwick of Guernsey. The aim is to cover all financial services business available to consumers or private individuals.

8.2 The primary legislation will cover the broadest scope of financial services businesses and the secondary legislation will detail the areas that are to be excluded as documented in the later section detailing the scope of the scheme. This will provide the necessary flexibility to amend the scope of the scheme if required – for example if a high volume of complaints are received in an area which had previously been outside the scope of the scheme.

8.3 The financial services which would be within scope of the scheme are:

a. Banking: All Banks which deal with eligible complainants;
b. Insurance: Insurance Brokers, companies and managers which deal with eligible complainants;
c. Investments and Funds: financial advisers (deemed to be independent or otherwise), stockbrokers with eligible customers which are under 1987 POI law; class A funds and any licensee carrying out business in relation to class A funds wherever the Class A fund is administered;
d. Pension related: Fiduciary business licensees (not personal license holders which are exempt from the FSO) and Non Fiduciary businesses which administer any pension product (including RATS and QROPS) and / or provide pension advice to eligible customers;
e. Money Lending and Consumer Credit Providers;
f. Money service businesses with eligible customers.

8.4 For avoidance of doubt the following are **NOT to be** included in the scheme:

8.4.1 Generally: Any entities which do NOT have eligible complainants, or whose financial services are outside the scope of the scheme – for example:

8.4.2 Banking: Any banks that only offer treasury services to other corporate entities or in-house / within their own internal group and do not have eligible complainants;

8.4.3 Insurance: Captive and reinsurance insurance companies are not part of the scheme as they do not have relevant customers.

8.4.4 Investments and Funds: Any fund entity including administrators which do not have eligible customers. Note that all other fund entities not defined and classified as within the scope outlined above are not within the FSO – even if they have eligible customers.

8.4.5 Fiduciary: Fiduciary entities which are not involved in QROPS, RATS or pension products. Individuals with personal fiduciary licences who do not have any eligible customers.

9. Complainants

9.1 The scheme will be free to the complainant.

9.2 The aim of the FSO is to offer individuals an alternative route of redress, as they might feel daunted at progressing a complaint against a financial firm through the courts. The financial services provider is likely to have more substantial financial and legal resources, and more knowledge and understanding of the subject matter.

9.3 The scheme is aimed primarily at consumers, but it is also considered appropriate for use by small business enterprises, charities and trustees or council members.

9.4 The definition of who can bring a complaint ("relevant customer" or "eligible complainant") to the FSO is broadly modelled on the UK's Financial Ombudsman Service (FOS) but with additional detail tailored for Guernsey's financial services market, and this definition will include:

9.4.1 Consumer/private individual;
9.4.2 Small businesses;
9.4.3 Charities with an annual income of less than £1million;
9.4.4 Non-professional trustees or council members.

9.5 Trustees and Foundation council members should be able to complain about financial services provided to the trust or foundation. The aim of this is to enable pension-related complaints, when an individual is the trustee of their own pension arrangements, and also when individuals are acting as trustees of family trusts. Unlike the UK FOS, there is to be no limit on the size of trust or foundation that can use the Scheme but exclusion is sought excluding those trustees or council members who are carrying on trust company business from being able to complain. It is considered that these trustees or council members are better able to progress a complaint than an individual.

9.6 The complainant needs to be further defined as having one of the following relationships with the financial services provider:

a. the complainant is or was an actual or potential customer or money service user:
b. the complainant is the holder, or the beneficial owner, of units in a Class A collective investment fund which are considered to be generally available to consumers;
c. the complainant is a beneficiary of, or has a beneficial interest in, a pension scheme;
d. the complainant is a beneficiary under a trust or estate of which the respondent is a trustee or personal representative;
e. the complainant is a person for whose benefit a contract of insurance was taken out or was intended to be taken out with or through the financial

services provider or the complainant has a legal right to benefit from a claim;

f. the complainant relied in the course of business on a cheque guarantee card issued by the provider;

g. the complainant is the true owner of a cheque collected by the provider for someone else's account;

h. the complainant has received a banker's reference issued by the provider;

i. the complainant gave the provider a bond, guarantee or security for a mortgage or other lending;

j. the provider in operating a credit reference agency held information relevant to the complainant's financial standing;

k. the provider has sought to recover payment or the provision of other duties from the complainant under a consumer credit agreement in relation to debt collection or debt administration;

10. Territorial Scope

10.1 The FSO will cover complaints relating to acts or omissions of financial service providers who operate in or from the Bailiwick of Guernsey.

10.2 There is no restriction as to the residence of the complainant.

11. Ineligible complaints

11.1 The FSO should be entitled to dismiss certain claims as being ineligible for reasons such as:

a. The complainant has not suffered (or is unlikely to suffer) financial loss, material inconvenience or material distress;

b. The complaint is frivolous or vexatious;

c. The matter has been or is being considered in court or under other comparable independent dispute resolution arrangements;

d. The matter would be more suitably dealt with by a court or under other comparable independent dispute resolution arrangements;

e. The dispute relates to the legitimate exercise of the financial services provider's commercial (or fiduciary or discretionary) judgement;

f. The dispute relates to a failure to consult beneficiaries before exercising a discretion under a will or trust, where there is no legal obligation to consult;

g. Resolution of the dispute may prejudice the rights of other parties, who have not consented to the consideration of the complaint by the FSO;

h. The dispute relates solely to investment performance;

i. The financial services provider has already made an offer of compensation, which is fair and reasonable and still open for acceptance.

12. Time Limits and starting date

12.1 The time limits to bring a complaint should be:

a. That the complaint should be received by the FSO within 6 years of the act or omission by the financial services provider, or
b. Where the complainant could not reasonably be expected to have brought the complaint within the time set out above that the complaint should be received by the FSO within 2 years of when the complainant should reasonably be expected to have become aware of the act or omission.

12.2 The scheme will cover complaints relating to acts or omissions on or after the date of this report.

12.3 The earliest date on which a joint FSO would be running is likely to be in 2014.

13. Awards and Appeals

13.1 The maximum monetary award which the FSO can award will be limited to £150,000.

13.2 The FSO is to be the final arbiter on a dispute and its decision will:

a. be binding on the financial services provider, except in certain limited circumstances set out in the law where it will be possible to appeal to the Royal Court, for example where the FSO's decision is flawed on a point of law,
b. only be binding on the complainant if they accept the decision. The complainant therefore has the potential option of taking the case to court.

14. Funding, funding model and planned budget

14.1 It is difficult to accurately predict the variables in a new joint FSO scheme but work has been carried out, as detailed below, which estimate these variables and which will be used as a basis to establish a FSO scheme. Ranges of estimates have been used wherever possible and are for illustration purposes and are subject to further refinement. It is likely that there will be variances from these estimates in the actual scheme but there will be scope to adjust for these in the future to be as fair as possible once the scheme is established and is up and running.

Potential number of complaints

14.2 It is important to estimate the number of complaints as this will provide a basis to understand the funding required and possible budget for a FSO.

14.3 Industry working groups were established in both islands to assess the funding model and related topic. This work concluded that it is hard to draw reliable predictions on numbers of complaints for a joint scheme, but estimated that the range of actual complaints received (not including enquiries) could be between 700 and 1,400 per annum across both islands with the likely number being towards the lower end.

Budgets and funding model

14.4 The FSO would have initial set up costs and annual running costs. All estimates were made assuming a joint scheme runs from a single office. The costs mentioned in this report are for such a joint scheme which covers both Guernsey and Jersey, so Guernsey's share is around half of the costs mentioned in this report. Consideration was also given to any reserves which may be required and around six months of reserves was considered appropriate, possibly starting with three months and building up to six months over a period of time. The annual running costs are variable depending on the number of actual complaints.

14.5 Work on setting a budget for the FSO included reviewing other established and recently set up schemes. Set up costs were estimated at £183,000 and the likely annual running costs for a joint scheme depended on the number of complaints and was estimated at £583,000 (700 complaints).

14.6 The funding model will comprise three stages:

14.6.1 start-up fee to cover the initial costs of implementing the FSO;
14.6.2 an interim funding model to fund the early years of the FSO by annual levies with low case fees in addition; and
14.6.3 a second stage model once a body of complaints data has been established which is more slanted to the principle of 'user pays'. This would revise the income received from the annual levy and case fees to increase the proportion raised from case fees.

14.7 The funding model is based on the GFSC's banking, fiduciary, investment and insurance sectors and GFSC information on licensed entities, where this data is available. It will be used to ensure entities are correctly planned for under the FSO's model.

Funding population

14.8 The potential "funding population" is made up of the financial services entities which are within the scope of the scheme and may offer, provide or carry out financial services advice or products to "relevant customers" i.e. customers that are potentially "eligible complainants" (see section 8 "those who are eligible to bring a complaint to the FSO").

14.9 There will be exemptions from funding for entities that do not conduct any financial services business within the scope of the FSO (for example, funds business in relation to fund types that are outside the scope of the scheme, fiduciary entities that are not involved in pensions business; entities with no physical presence in Guernsey and that provide financial services from their home state outside Guernsey), or that do not have relevant customers due to the nature of their business (such as re-insurers).

14.10 It is important to predict as accurately as possible the size and make-up of the funding population in order to understand who will pay the budget of the FSO scheme so that fees per financial services company can be correctly calculated and the respective companies can plan accordingly.

14.11 Objective consideration was given to other FSO schemes, the Guernsey and Jersey consultations and the conclusions of the working groups regarding the types of exemptions.

14.12 A summary of the responses to the Department's consultation was published by it which stated which financial services entities within each sector would be included under the scheme. The list has been revised after further industry consultation and the "funding population" which will be within the scope of the scheme are listed in section 7.

14.13 Providers that operate and are licensed in one of the areas captured by the FSO scheme will be part of this funding population.

14.14 Providers that operate across more than one sector would be charged for each of the sectors they operate in. Similarly, groups that have multiple entities licensed in a sector will be charged a fee per licence-holding entity. This approach can be reviewed once the scheme has been established.

14.15 If any entities whose services are covered by the FSO scheme are not on a GFSC list but they come to light as a result of a complaint, they will be charged a case-handling fee for each complaint taken on. The case fee can be set at a different rate for this situation and these entities can also volunteer to join the annual levy approach.

14.16 There will be exemptions from the levy for entities that would otherwise be part of the funding population except for the fact that they do not have any relevant customers (e.g. banking entities that only offer treasury services or re-insurers that do not offer retail products).

14.17 The effect of these above factors on the funding population and thus the entities which will be within the scope of the FSO by sector (as registered or regulated entities by the GFSC) is broadly as follows:

i. Banking – most banks although a small number of registered banks may not be part of the funding population as they may not have any relevant customers.

ii. Fiduciary – many lead licensees as regulated by the GFSC are likely to be in the funding population where they carry out pension related business.

iii. Investment – financial advisers and all those holding Investment Licences with the GFSC dealing with class A funds would be part of the funding population.

iv. Insurance - all licensed insurance intermediaries are likely to be within the funding population but insurance managers and the vast majority of insurance entities are not likely to be part of the funding population as they do not have relevant customers.

v. Registered entities (money service providers and non-regulated financial services businesses) will form part of the funding population, although a number of non-regulated financial services businesses will not have relevant customers.

14.18 The maximum size of a funding population if all entities regulated and registered by the GFSC and Jersey Financial Services Commission were included for both Jersey and Guernsey was estimated at over 5,000 with around half of this number being Guernsey licensed entities. However, this number is likely to be reduced for the reasons set out above and as entities without relevant customers are removed to make the entire funding population around 600 across both islands with just over half of these being Guernsey entities.

Start up fee

14.19 The "start up" fee is an additional one off flat fee to relevant providers to cover initial start up costs and also to build up reserves for the FSO. This would be run on an ongoing basis for any providers brought into the scheme for the first few (probably five) years of operation. Thus parity would be provided for any new entrants into the market.

14.20 Using £183,000 set up costs and £146,000 for reserves (being 3 months or a quarter of the annual £583,000 running costs would give a total of £329,000 which if divided by a funding population of just under 600 across Jersey and the Bailiwick of Guernsey with just over 300 in Guernsey is £568 per entity.

Interim Funding – Lower case fees for early years operating costs with annual levy

14.21 The scheme will require some "temporary" funding before it has built up some complaints experience; this interim measure will be in place for the first few years and will be an annual levy with a degree of weighting built in so that sectors that are expected to produce proportionately more complaints pay a larger levy. In addition, modest case fees will be charged to the financial services provider for each complaint accepted for consideration by FSO.

Case fees

14.22 An individual fee of around £200 per complaint case opened (a "case fee") will be charged from the start of the FSO. This will help manage some uncertainty around costs regarding the complaint volume and will apply a "user pays" principle from the outset. Case fee income will be used mainly to increase the reserves over the first few years, from three months' to six months' operating costs, and partly to lower subsequent annual levies. The case fees are likely to increase in the future.

14.23 Case fees would not be payable for complaints received that are outside the FSO's jurisdiction or that are rejected for another reason at the outset.

Annual Levy

14.24 Weighting based on relative size was considered but dismissed as unjustifiably complex for a temporary arrangement.

14.25 Complaints data which was analysed showed that nearly half of complaints are likely to be in relation to the banking sector and it is proposed that the banking sector therefore shares a greater proportion of this interim funding.

14.26 It is proposed that banks are given a weighting to result in them accounting for around 50% of the Bailiwick of Guernsey share of the total joint annual running costs of the £583,000 to reflect the fact that banks are likely to use the service more (the Bailiwick of Guernsey share of the total running costs of £583,000 are 50% of the total ongoing costs).

14.27 It is proposed that the Bailiwick of Guernsey: Jersey split be 50:50 in these initial funding calculations.

14.28 If such a weighting were used as an annual levy for the early years of operating costs banking licence holders would pay around £4,900 per license per annum (as described earlier not all banks would be part of the funding population) and other financial service providers would pay around £500 per entity per annum. This annual levy and case fees will change over time as the balance is changed so that more income comes from case fees.

Ongoing funding model

14.29 Once the Scheme is established and complaints data is available, the funding model can be refined to build in even more of a "user-pays" element. This ongoing funding model will reflect the proportion of complaints generated (a) by different sectors and (b) within a sector to take account of the differences between providers so that an entity which generates more complaints will contribute more to the funding.

14.30 The ongoing approach does levy individual case fees and an annual fee per provider. The approach will be an annual levy reflecting the proportion of complaints generated by each sector and with increased case fees for each complaint accepted for consideration by FSO. The balance will be shifted so that less income will be produced from the annual levy and more from case fees, so that higher users of the Scheme contribute more to the funding.

14.31 This approach will encourage financial services providers to deal with complaints as effectively as possible internally which would then remove the potential need for complaints to go to the FSO which would incur them greater cost.

Other Charging

14.32 In order to deter potentially vexatious complaints the FSO will have the power to make regulations to charge, in exceptional circumstances, complainants who persistently make vexatious claims. Complainants will not be charged in any other situation.

15. Legislation

15.1 The establishment of a FSO will require primary legislation which will cover the broadest scope of the financial services sector with the ability to provide additional detail by regulation, such as activities that are excluded, to facilitate future amendments to the scheme in the light of complaints experience. A Projet de Loi will be required to put the necessary legal framework in place.

16. Consultation

16.1 The Law Officers have been consulted regarding this proposal and have raised no issues.

17. Resources

Criterion 1 – Need for legislation

Primary legislation is essential for the establishment of a Financial Services Ombudsman. A Projet de Loi will be required to put the necessary legal framework in place.

Criterion 2 – Funding

States funding will not be required in order to implement the FSO after the necessary legislation has been drafted, assuming the model outlined in the States Report is followed.

Criterion 3 – Risks and benefits associated with enacting/not enacting the legislation

There are potential reputational benefits for the Bailiwick of Guernsey if it has an ombudsman scheme as it can show that rights of consumers of financial services products are being dealt with professionally in the Bailiwick of Guernsey.

The potential risks of not proceeding with an Ombudsman are that the reputation of Guernsey as a first class international finance centre may be adversely affected and that Guernsey does not perform as well as it could when subjected to future international scrutiny such as IMF visits.

Criterion 4 – Estimated Drafting Time

It is not possible to provide an estimate of the time required to draft the necessary legislation at this stage, as the scope and extent of the required legislation has not yet been identified. An estimate of the drafting time required will be provided when the legislative requirements have been fully scoped.

18. Corporate Governance

Compliance with the Principles of Good Governance

In accordance with Resolution VI of 2011 (Billet d' État IV, 2011) this annex sets out the degree to which the Department considers that the Report complies with the six principles of good governance.

Core Principle 1 – Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users.

The Department develops policy in accordance with States and Departmental key objectives and this policy is in alignment with these.

The proposed FSO has consumer rights as a core reason for its establishment and for the ultimate benefit of financial service providers and finance sector in Guernsey.

The proposal will result in a high quality FSO which will stand up to international scrutiny.

Core Principle 2 – Good governance means performing effectively in clearly defined functions and roles.

Areas concerning the establishment of a FSO have been documented in this report and the FSO will be established with clear rules and procedures which will be transparent and visible and comply with general principles applied to effective FSO schemes operating in other jurisdictions.

Core Principle 3 – Good governance means promoting good values for the whole organisation and demonstrating the values of good governance through behaviour.

The FSO scheme has been developed using expertise from both within and outside the States of Guernsey including industry. It is intended that the proposed legislation and FSO will use best practice from other similar established schemes from around the world.

Core Principle 4 – Good governance means taking informed, transparent decisions and managing risk.

The decision to propose a FSO has been taken after due consideration of minimising risks to Guernsey and having considered independent reviews on Guernsey as well as studying the best practice of how FSOs operate in other jurisdictions.

The decisions of any FSO will be independent after studying and taking account of all the appropriate facts involved.

Core Principle 5 – Good governance means developing the capacity and capability of the governing body to be effective.

The proposed structure of the FSO will mean that it is professionally managed and run by an independent board but with appropriate oversight from Government.

Core Principle 6 – Good governance means engaging stakeholders and making Accountability real.

The proposals in this report have been subject to general consultation with industry and an industry working group was set up which considered specific areas of these proposals.

19. Recommendations

19.1 The Commerce and Employment Department recommends the States to resolve:

1. To approve the establishment of a Bailiwick of Guernsey Financial Services Ombudsman on the basis set out in this States Report.

2. To direct the Department to work with the Law Officers to identify the necessary legislative requirements for the establishment of a Financial Services Ombudsman scheme.

3. To direct the drafting of such legislation as may be necessary to give effect to the above decisions.

Yours faithfully

K A Stewart
Minister

A H Brouard
Deputy Minister

D de G de Lisle
L B Queripel
H J R Soulsby
States Members

Advocate T Carey
Non States Member

(NB The Treasury and Resources Department notes that the costs of the Financial Services Ombudsman will be fully met by the financial services industry. Therefore, apart from drafting the legislation, there are no resource implications arising from this States Report.)

(NB The Policy Council supports the Report.)

The States are asked to decide:-

XII.- Whether, after consideration of the Report dated 2nd July, 2013, of the Commerce and Employment Department, they are of the opinion:-

1. To approve the establishment of a Bailiwick of Guernsey Financial Services Ombudsman on the basis set out in that Report.

2. To direct the Department to work with the Law Officers to identify the necessary legislative requirements for the establishment of a Financial Services Ombudsman scheme.

3. To direct the drafting of such legislation as may be necessary to give effect to the above decisions.

HOME DEPARTMENT

POLICE COMPLAINTS COMMISSION: REAPPOINTMENT OF MEMBERS

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

12th August 2013

Dear Sir

1. Executive Summary

1.1 The purpose of this report is to propose the reappointment of Mr Kevin Francis McGoldrick, Mrs Bonita Louise Hamilton and Mrs Ann Patricia Nippers as ordinary members of the Police Complaints Commission ('the Commission').

2. Background

2.1 In 2005, the States of Deliberation approved the Department's recommendation that legislation be introduced to establish an Independent Police Complaints Commission at a local level (Billet d'État I, 2005, pg. 43).

2.2 The Police Complaints (Guernsey) Law, 2008 ('the Law') accordingly came into effect on 1st July 2011 and creates the Commission as an independent panel to maintain oversight of how complaints against the police are handled by that organisation.

2.3 Under paragraph 1(1) of the Schedule to the Law, the Commission consists of a Chairman and five ordinary members. Under paragraph 1(2) of the same Schedule, the Chairman and ordinary members are appointed by the States of Deliberation upon the recommendation of the Home Department. Under paragraph 1(6) of the same Schedule members of the Commission may be reappointed.

2.4 Under paragraph 1(4) of the Schedule to the Law, the Chairman and ordinary members shall be appointed for a term of four years. Upon the coming into force of the Law, three of those five ordinary members of the Commission were appointed for a term of two years. The rationale behind this was to mitigate against a situation where the terms of office for all members expired simultaneously.

3. Reappointment of Members

3.1 Mr Kevin Francis McGoldrick, Mrs Bonita Louise Hamilton and Mrs Ann Patricia Nippers have all served as Commissioners since the commencement of the Law on 1st July 2011. Under paragraph 1(5) of the Schedule to the Law this term of office is for a period of 2 years "from the coming into force of this Law", meaning that their term of office came to an end on 1st July 2013.

3.2 The Department is satisfied that Mr McGoldrick, Mrs Hamilton and Mrs Nippers meet all the prescribed criteria set out in Law to satisfy the Department of their suitability for reappointment (see profiles in Appendix 1) and is pleased to confirm that these named members have indicated their wish to stand for reappointment.

3.3 The Department approaches the States of Deliberation to make a Resolution on the basis of the Department's recommendation in line with para 1(2) of the Schedule to the Law.

4. Recommendation

4.1 In the circumstances of this report, the Home Department recommends the States of Deliberation to:

(a) Approve the reappointment of Mr Kevin Francis McGoldrick as an ordinary member of the Police Complaints Commission for four years, retrospectively with effect from 1st July 2013;

(b) Approve the reappointment of Mrs Bonita Louise Hamilton as an ordinary member of the Police Complaints Commission for four years, retrospectively with effect from 1st July 2013;

(c) Approve the reappointment of Mrs Ann Patricia Nippers as an ordinary member of the Police Complaints Commission for four years, retrospectively with effect from 1st July 2013.

Yours faithfully

J P Le Tocq Minister Home Department	F W Quin (Deputy Minister) M K Le Clerc M M Lowe A M Wilkie	Mr A Ozanne, non-States Member

Appendix 1 – Members' Profiles

Mr Kevin Francis McGoldrick

Mr McGoldrick has extensive experience of managing risk and compliance affairs within the finance industry and has previously undertaken work in a mediator capacity. Mr McGoldrick has also undertaken a distance learning law degree.

Mrs Bonita Louise Hamilton

Mrs Hamilton has professional experience as a Certified Account Technician and has experience with the implementation of, and subsequent compliance with, legislation.

Mrs Ann Patricia Nippers

Mrs Nippers has professional experience of working with children in education and has developed key skills through her professional contribution to the Pupil Support Advisory Service.

Each of the above candidates greatly exceeds the required criteria and it is believed that they will collectively continue to form an efficient and effective Commission.

(NB As there are no resource implications in this Report, the Treasury and Resources Department has no comments to make.)

(NB The Policy Council has no comment on the proposals.)

The States are asked to decide:-

XIII.- Whether, after consideration of the Report dated 12th August, 2013, of the Home Department, they are of the opinion:-

1. To approve the reappointment of Mr Kevin Francis McGoldrick as an ordinary member of the Police Complaints Commission for four years, retrospectively with effect from 1st July 2013.

2. To approve the reappointment of Mrs Bonita Louise Hamilton as an ordinary member of the Police Complaints Commission for four years, retrospectively with effect from 1st July 2013.

3. To approve the reappointment of Mrs Ann Patricia Nippers as an ordinary member of the Police Complaints Commission for four years, retrospectively with effect from 1st July 2013.

ORDINANCE LAID BEFORE THE STATES

THE AL-QAIDA (RESTRICTIVE MEASURES) (GUERNSEY) ORDINANCE, 2013

In pursuance of the provisions of the proviso to Article 66 (3) of the Reform (Guernsey) Law, 1948, as amended, The Al-Qaida (Restrictive Measures) (Guernsey) Ordinance, 2013, made by the Legislation Select Committee on the 27th August, 2013, is laid before the States.

STATUTORY INSTRUMENTS LAID BEFORE THE STATES

THE FINANCIAL SERVICES COMMISSION (ADMINISTRATIVE FINANCIAL PENALTIES) (BAILIWICK OF GUERNSEY) (AMENDMENT) REGULATIONS, 2013

In pursuance of Section 25(3) of The Financial Services Commission (Bailiwick of Guernsey) Law, 1987, as amended, The Financial Services Commission (Administrative Financial Penalties) (Bailiwick of Guernsey) Regulations, 2013, made by the Guernsey Financial Services Commission on 26th July, 2013, are laid before the States.

EXPLANATORY NOTE

These regulations amend The Financial Services Commission (Administrative Financial Penalties) (Bailiwick of Guernsey) Regulations, 2010 to mirror the changes made to The Regulation of Fiduciaries (Fiduciary Advertisements and Annual Returns) Regulations, 2012 (as amended) to extend to 2 months the filing period after which administrative penalties will be rendered for the late filing with the Commission of an annual return.

THE COMPANIES (NOTICE OF CHANGE OF DIRECTOR) (AMENDMENT) REGULATIONS, 2013

In pursuance of Section 537 of the Companies (Guernsey) Law, 2008, The Companies (Notice of Change of Director) (Amendment) Regulations, 2013 made by the Commerce and Employment Department on 31st July 2013, are laid before the States.

EXPLANATORY NOTE

These regulations provide that notice by a company to the Registrar under section 145(1) of the Companies (Guernsey) Law, 2008 of a person having become a director of the company shall not, from the date of commencement of these regulations, be accompanied by the consent and declaration required by section 138 of the Law but shall instead contain a statement that the new director has, in accordance with section 138, given his written consent to being a director and made a written declaration that he is not ineligible to be a director.

These regulations came into operation on the 1st August, 2013.

APPENDIX 1

TREASURY AND RESOURCES DEPARTMENT

GUERNSEY ELECTRICITY LIMITED – SUBMISSION OF ANNUAL ACCOUNTS

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

8th August 2013

Dear Sir

Under section 8 of the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, the Department is required to publish on an annual basis the accounts and annual reports of Guernsey Electricity as an appendix to a Billet. I therefore submit the Report and Financial Statements of Guernsey Electricity Limited for the year ended 31st March 2013.

The company made a loss on ordinary activities before taxation of £3,353,000, compared to a profit in 2012 of £5,058,000. As a consequence, no dividend will be payable in 2013. In addition, the declaration of a dividend for 2012 (expected to be £1million) continues to be deferred as a result of the exceptional circumstances arising from the failure of the subsea cables between Guernsey, Jersey and France last year.

It should be acknowledged that the deterioration in Guernsey Electricity's financial performance is almost entirely a direct result of the failure of the interconnectors and associated on-island importation equipment. As a result, there has and continues to be a need to generate the majority of our power requirements on-island, which is considerably more expensive than electricity imported through the cables. Whilst this is regrettable, Guernsey Electricity is to be commended for the speed of its response to these challenges, firstly in terms of the repairs to the Guernsey-Jersey cable and, secondly, in its development of new strategic initiatives to improve the resilience of the Island's import capacity. As a result, it is anticipated that import capacity will be substantially improved in 2014/15.

I should be grateful if you would include this matter as an Appendix to the Billet d'Etat for October 2013.

Yours faithfully

Gavin St Pier
Minister

Guernsey Electricity Limited

Report and financial statements

31 March 2013

Guernsey Electricity Limited

1981

Contents

Guernsey Electricity Limited

Directors, officers and professional advisers

Directors:	Advocate IH Beattie	(non-executive Chairman)
	AM Bates	(managing)
	IJ Limond	(finance) – retiring 9 July 2013
	RW Beebe	(operations)
	S-A David	(corporate strategy)
	D Farrimond	(non-executive) – retiring 6 August 2013
	MJ Mann	(non-executive)
	RP Lawrence	(non-executive)
	IA Hardman	(non-executive)
Secretary:	SB Pattimore	
Bankers:	Barclays Bank Plc PO Box 41 Le Marchant House St Peter Port Guernsey GY1 3BE	
Legal advisers:	Mourant Ozannes 1 Le Marchant Street St Peter Port Guernsey GY1 4HP	
Independent auditor:	KPMG Channel Islands Limited PO Box 20 20 New Street St Peter Port Guernsey GY1 4AN	
Registered office:	PO Box 4 Electricity House North Side Vale Guernsey GY1 3AD	
Company number:	38692	

Guernsey Electricity Limited

Chairman's statement

The 2012/13 financial year has been a very eventful one for Guernsey Electricity. We have seen the failure of the subsea cables between both Guernsey and Jersey and Jersey and France, breakdowns in critical equipment for power importation on-island, the installation of a new generator and the worst snowfall that the island of Guernsey has seen in our lifetimes. Notwithstanding those events I am pleased to say that Guernsey Electricity has been able to continue to deliver electricity supplies and a high quality service to its customers. Our plans to deal with such eventualities only worked successfully because of the loyalty and commitment of our staff. Without their efforts we would not have been able to succeed so well and I would like to thank them for that support.

The lessons of this year's events have been clear. We must continue to develop our strategy so that we can keep delivering reliable electricity supplies to the island. In addition, we must be conscious of the requirements set out in the States Energy Resource Plan for electricity supplies that are affordable, have significantly reduced carbon emissions and are secure. That means that we must consider the need for further interconnector cables to France, either directly or via Jersey so as to secure our future supplies. We shall be making proposals to our shareholder in this regard this summer.

There are a number of changes to the Board which I would like to note. Iain Limond who has tirelessly served the Board as Finance Director for the past 11 years is retiring on 9 July. Iain has guided the company through financially choppy seas and the Board is indebted to him. Iain will be replaced by David Hipple who brings to the company considerable experience gained with Anglian Water and the Department of Transport. Amongst the non-executive directors, David Farrimond is stepping down after 6 years. We have recruited 2 new non-executives, Bob Dutnall and Christine Holmes both of whom will join the Board in August. I would like to take this opportunity to thank both Iain Limond and David Farrimond for their help and support and for the contribution they have made to the development of the company.

Guernsey Electricity Limited

Managing director's report

Over the last year we have faced significant and unprecedented challenges in terms of our electricity assets but my greatest satisfaction is that we have responded well to those challenges and have continued to deliver a quality service to our customers.

As an organisation we will continue to focus on delivering our priorities:-

- A reliable and efficient electricity service to our customers;
- Maintaining tariffs at a level that remains affordable to our customers;
- Ensuring that we contribute to the island's aspirations for a low carbon future.

For Guernsey Electricity, these priorities have to be delivered in what is a very complex environment. Guernsey is a small island with only 30,000 customers, so maintaining affordability today and in the future is a guiding principle. Guernsey is 38km from its nearest neighbour, Jersey, and 50km from France so the importation of electricity supplies does present problems and risks which will remain until the import infrastructure is robust. As a consequence we have to be in a position to generate the island's demand for electricity on-island if necessary, but such generation does not meet the aspiration for low carbon electricity supplies. In addition the cost of generating on-island is also considerably higher than the cost of importing electricity from France.

The year saw a number of specific events worthy of note which the company had to manage.

In April 2012, the subsea supply cable from Jersey to Guernsey failed. This is the first time that there has been a problem of this nature since its installation in 2000. The process of identifying the fault and carrying out a repair took 3 months – quicker than we had expected (the usual benchmark for such a repair is 6 months). However the situation was further complicated when the piece of equipment which connects the cable to the on-island network failed in August. Even with this subsequent failure we were able to restore the import capacity at the start of October but all of Guernsey's electricity supplies for that 5 month period were generated from our generating plant on-island.

In June 2012, one of the two cables from France to Jersey (through which we obtain our imported supplies) failed and was subsequently found to be economically irreparable. So when we did restore imported supplies to Guernsey in October, the amount we were able to import was significantly reduced as there is now only one cable operating from France to Jersey. Since October, imported electricity represents only about a third of our electricity demand compared to a level of 80% before the cable failure in April 2012.

In August we began installing a new medium speed diesel engine in D station, which will provide us with another 17MW of on-island generating capacity. This is an enormous piece of equipment which many islanders will have seen as it was unloaded at St Sampson's harbour and transported along the quayside to the power station. Its installation is a major project for the company and it represents a significant investment at a cost of £14m. The process of commissioning has been longer than planned as the manufacturers have continued to resolve a number of faults but we have to ensure that it operates reliably and efficiently before we accept it. Whilst the engine has successfully produced 17MW we have taken the decision that the 25 year plus asset should meet all design criteria.

In March 2013 Guernsey saw the heaviest snowfall for a generation closing roads, schools and the airport with transport on the island almost grinding to a halt for three days. During this period we managed to continue to deliver electricity supplies to the island without any significant interruption. This is primarily down to a strategic initiative following the storms of 1987, whereby Guernsey Electricity has removed all overhead electricity lines preventing significant disruption during extremes of weather.

In spite of the above events it is pleasing to be able to report that Guernsey Electricity customers suffered only 68.6 minutes loss of supply on average throughout the year (this compares to 84.3 minutes lost during the prior financial year). The risk mitigation and standby measures we had put in place worked and we were able to continue to meet our customers, and the island's electricity requirements.

Guernsey Electricity Limited

Managing director's report - continued

There have unfortunately been consequences of the cable failures and the reduction of imported electricity supplies for our customers. There has been a significant increase in our costs this year as a result of the change in the source of electricity we have supplied. Whilst the damage caused to the Guernsey-Jersey cable was insured, the costs of on-island generation during the period of its repair were over £6m higher than would have been the case if imports were available. Imports of electricity have been restored but as we are currently generating approximately two thirds of our power requirements costs are also significantly higher this year. Whilst the costs associated with the cable link repair have been recovered and accounted for in these accounts, we are exploring all avenues to recover the additional £6m costs incurred as a result of on-island generation following the failure of the Guernsey-Jersey cable.

Regrettably, we have had to pass some of the additional costs through to customers and we increased our tariffs by 9% from 1 October 2012. We have tried to ease the impact on customers by not passing through all cost increases and as a result we have made a loss before tax of £3.4m for the financial year.

The events of the year have made it clear to us that we need to reinforce our route for electricity supplies from the continent. Having only one cable to Guernsey leaves us very exposed to any failure of this cable and the consequent increase in costs to our customers that this brings. We are therefore carrying out a number of strategic projects to improve the resilience of our import capability:

- Through our joint arrangement with Jersey Electricity plc, the Channel Islands Electricity Grid, we are installing a further cable between Jersey and France to increase import capacity for both islands. This should be operational by late 2014.
- With Jersey Electricity plc we are also seeking permissions to install another cable from France to Jersey to replace the one that was irreparably damaged in 2012.
- We are also examining options for installing a further cable link to Guernsey either from Jersey or directly from France. We believe this is essential to ensure that we can deliver the most cost effective and secure electricity supplies to our customers.

We believe that we must be able to increase imported capacity to the island to ensure that we can deliver our key objectives for the customers in Guernsey: reliability of supply, lowest possible prices and low carbon emissions. Reliability of supply will also require us to maintain sufficient on-island generation to mitigate risks to the continuity of electricity supply.

Despite the challenges encountered in this financial year the company and its employees remain committed to doing what is right for the island and our customers and I would like to thank all the employees at Guernsey Electricity for their dedication and loyalty – the employees make the company and Guernsey Electricity's great employee team dealt with all the challenges presented this year.

Guernsey Electricity Limited

Finance director's report

Profit and Loss Account

The last year has been a difficult year for the company. Our overall results show an operating loss of £3.4m compared with a profit of £4.7m the previous year. The main factor in this change is the significant increase in generation costs following the Guernsey-Jersey cable failure on 29 April and the loss of one of the Jersey-France cables in June. We were unable to import any power from 29 April to 5 October and as a result of the Jersey-France cable failure we saw our imports of power supplies reduced from approximately 80% of demand to 30%. As a consequence we had to generate significantly more power than planned on-island with an increase of over £6m in our costs. Overall loss before tax was £3.4m, a deterioration of £8.4m from the prior year profit before tax of £5m. The results represent a great disappointment for us but reflect a good performance given the operational difficulties faced by the company during the year.

Turnover showed an increase of £4.6m to £56.4m, an increase of 8.8%. As a result of the cost increases which arose from the cable failures, we were forced to increase prices by 9% from 1 October. This followed a 1 April price increase of 2.5%. These price increases contributed £3.8m of the increase in turnover with the balance coming from higher volume. Whilst it was necessary for us to increase charges in October 2012, the level of our overall loss for the year arises from the fact that we have tried to absorb some of the cost increases we have faced.

The direct costs of supplying customers with electricity rose from £35.9m to £48.1m, an increase of 34%. The increase in on-island generation gave rise to an increase of £11.4m in the cost of supply over the previous year. We had to switch to using our generators extensively and as a result we saw a £22.8m increase in the cost of heavy fuel oil and a reduction of £12.3m in our power import costs compared to the prior year. The year saw a continuing high level of fuel costs and as a result the marginal cost of on-island generation is some 50% higher than imports.

Net operating expenses increased from £11.3m to £11.7m, an increase of 3.5%. We have worked hard to keep controllable costs to a minimum to mitigate against the impact of increased costs of generation on customers' bills.

Net interest shows a reduction of £0.26m as a result of lower cash balances held by the company and continuing low interest rates. Other finance costs reflect part of the cost associated with the staff pension scheme.

The taxation credit arises from the losses we have incurred and the company now has tax losses carried forward of £6.8m.

At the company's last Annual General Meeting due consideration was given to a proposed dividend of £1m in respect of performance for the 2011/12 financial year. In light of the financial impact of the cable link outage, it was agreed to defer payment of this dividend and it will be reconsidered at the next Annual General Meeting. No dividend is proposed with respect to performance for the 2012/13 financial year.

Looking forward we will continue to see higher generation costs until we are able to increase the amount of power imported through our interconnector. This will not happen until late 2014 at the earliest so we must continue to manage our costs closely to minimise the impact of higher charges on customers.

Guernsey Electricity Limited

Finance director's report - continued

Balance Sheet

The company continues to benefit from a strong balance sheet. Not surprisingly we have a significant fixed asset base of £100.2m to support our operational activities, a £6.7m increase from the previous year reflecting the impact of our investment in a new engine.

Working capital of £9.1m was a £0.9m decrease on the previous year and we continued to have strong cash balances of £9.0m. However this is down by £8.1m and will continue to reduce as we make the future investment in fixed assets needed to secure the island's electricity supplies.

Our Shareholder's Funds decreased by £3.7m, from £102.2m to £98.5m. This was the result of £2.5m of post tax losses for the year and also the actuarial loss recognised in the pension scheme net of the movement in deferred tax relating to the pension deficit of £1.2m. The company is part of the States of Guernsey Pension Scheme.

The net pension deficit after deferred tax, reported under Financial Reporting Standard 17 ("FRS17") Retirement Benefits, has increased from £13.3m to £15.2m.

The deterioration in the pension deficit is the result of a number of factors. Most significantly, the actuarial discount rate used to compute the scheme liabilities is currently very low leading to an increase in the liability. The discount rate is based on a long term high-quality corporate bond index which is at an unprecedentedly low level as a result of fiscal and monetary policy in the UK.

Although our cash obligation to pay into the pension scheme is not determined by the outcome of the FRS 17 valuation we are very aware of the impact that the scheme has on our financial position. The States are currently consulting on proposed changes to the scheme and we shall review the outcome of that consultation in determining the basis of future pension provision for Guernsey Electricity.

Cash Flow Statement

Overall there was a net cash outflow for the year of £8.1m compared to the previous year which generated a net cash inflow of £2.9m. This is largely attributable to net capital expenditure which had a net cash cost of £10.7m, a £4.9m increase over the previous year principally as a result of the purchase of a new diesel engine. Cash inflow from operating activities fell from £8.6m last year to £2.2m this year as a result of the higher costs of the changed mix of our import and generation activities.

The closing cash balances for the year were £9.0m compared to £17.1m last year. These amounts include balances with the States of Guernsey of £4.3m (2012: £16.8m).

Guernsey Electricity Limited

Finance director's report - continued

Management of Financial Risks

In the normal course of business the company faces a number of significant financial risks. We purchase imported electricity in Euro under a long term contract with Electricite de France ("EdF"). We purchase fuel oil for on-island generation which has inherent exposure to the US dollar. Guernsey Electricity manages future financial risks by hedging against future price movements and currency fluctuations. This provides increased levels of certainty for our financial position which benefits our customers. As at 31 March 2013 it had entered the following agreements:

- forward supply contracts with EdF for power supplies at fixed prices covering the period to the end of 2016;
- forward currency exchange contracts to purchase Euro amounting to 5.7m Euros;
- financial hedges on the commodity price of heavy fuel oil for 2013/14 and 2014/15 amounting to £15.6m

Further details can be found in note 22 to the accounts.

Outlook

The year ahead will continue to be challenging for Guernsey Electricity's finances. We will continue to generate a large percentage of our supplies on-island because of the constraints on import imposed by the failure of the older of the two Jersey to France cables in 2012. We are also entering a period which will require increased capital investment to enable us to meet the increasing demands we face for electricity.

We will continue to focus on how we can deliver the most cost effective supplies to our customers. Specifically, Guernsey Electricity will continue to minimise its controllable costs and, where possible, absorb the impact of further uncontrollable costs associated with the requirement to generate on-island. This will be largely dependent upon global energy prices. Additionally, debt financing of future import and on-island capacity investment will assist significantly in the smoothing of future tariff changes for customers.

Guernsey Electricity Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2013. These comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement and notes to the financial statements set out on pages 23 to 40.

Incorporation

Guernsey Electricity Limited was incorporated on 24 August 2001.

Principal activities

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

Customers

The number of customers as at 31 March 2013 is 29,633 (2012: 29,458).

Units
Importation through the cable link between Guernsey, Jersey and the European grid provided 28% (2012: 82%) of the island needs in the year ended 31 March 2013 and 72% (2012: 18%) was generated on the island, as shown by the units analysis below:

	2013	2012
Units imported MWh	**111,244**	312,703
Units generated MWh	**288,760**	68,056
Total units imported/generated MWh	**400,004**	380,759

Average price
The average price per kWh sold in the year ended 31 March 2013 was 14.43 pence (2012: 13.57 pence).

Reliability
The reliability of Guernsey Electricity's supply is measured by minutes lost per customer. Power failures can be caused by a failure of generation plant, a failure of the distribution network or a failure of the cable link. Customers lost 24.65 minutes due to generation activity (2012: 62.19 minutes) and 43.95 minutes were lost per customer in respect of distribution (2012: 22.14 minutes).

Directors and their interests
The directors of the company, who served during the year and to date, are as detailed on page 1. The directors have no beneficial interests in the shares of the company.

Guernsey Electricity Limited

Directors' report - continued

Disclosure of Information to Auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

A resolution for the appointment of auditor will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board of Directors

IH Beattie

IJ Limond
Directors
17 June 2013

Guernsey Electricity Limited

Corporate governance

Guernsey Electricity's corporate governance arrangements are based on the proportionate and relevant application of good practice principles in corporate governance and predominantly those contained within the UK Corporate Governance Code published in September 2012.

Directors

In accordance with The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, as amended, the non-executive directors are appointed by the States of Guernsey on the nomination of the States of Guernsey Advisory & Finance Committee, now the Treasury & Resources Department. The first executive directors were appointed by the Advisory & Finance Committee after consultation with the non-executive directors. Further appointments of executive directors are made by the company's Board of Directors.

The Board's role is to provide entrepreneurial leadership of the company within a prudent framework of risk management and internal control. The Board is responsible for setting and implementing strategy, allocating the necessary human and financial resources to meet the company's objectives and monitoring the performance of management against those objectives. The Board is collectively accountable for the success of the company, sets its values and standards and takes decisions objectively in the interests of the company, its shareholders and other stakeholders.

Non-executive directors help to develop and challenge the company's strategy. They evaluate the performance of management and monitor the reporting of performance. They consider the integrity of financial information and the strength of financial controls and risk management systems. They oversee executive remuneration and play the main role in the appointment, removal and succession planning for executive directors.

Matters referred to the Board are governed by a scheme of delegated authorities that provides the framework for the decisions to be taken by the Board, those which must be referred back to the shareholder and those which can be delegated to Sub-Committees of the Board or senior management.

There were 10 Board meetings held during 2012/13. If a Board member cannot attend a meeting, they receive a copy of the agenda and the accompanying papers in advance of the meeting and are able to comment on the matters to be discussed.

The names of directors and the membership of the Board Sub-Committees are set out in the sections below. The Board Sub-Committees have authority to make decisions according to their terms of reference.

Chairman and Chief Executive

Guernsey Electricity has a non-executive Chairman and a managing director. There is a clear division of responsibilities between the two positions with the Chairman responsible for the running of the Board and the managing director responsible for the running of the company's business.

Ian Beattie spends on average 1 day per week in his role as Chairman. The Board consider that he has no other external directorships which make conflicting demands on his time as Chairman.

David Farrimond is the Deputy Chairman appointed by the Board.

Guernsey Electricity Limited

Corporate governance - continued

Board balance and independence

Throughout the year the company has had a balance of independent non-executive directors on the Board who ensure that no one person has disproportionate influence. There are five non-executive directors and four executive directors on the Board.

All of the non-executive directors bring with them significant commercial experience from different industries, which ensures that there is an appropriate balance of skills on the Board.

Appointments to the Board

Recommendations for appointments to the Board are the responsibility of the Remuneration & Nominations Sub-Committee. The appointment of non-executive directors is made by resolution of the States of Deliberation. All Board appointments are made in accordance with the provisions of the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001 and the company's Articles of Incorporation.

Information and professional development

For each scheduled Board meeting the Chairman and the Company Secretary ensure that the directors receive a copy of the agenda for the meeting, company financial, strategic and operating information and information on any other matter which is to be referred to the Board for consideration. The directors also have access to the Company Secretary for any further information they require. In the months where there is no scheduled Board meeting, the directors receive the prior month and cumulative company financial and operating information.

All newly appointed directors participate in an internal induction programme that introduces the director to the company and key stakeholders.

The Company Secretary, who is appointed by the Board is responsible for facilitating compliance with Board procedures. This includes recording any concerns relating to the running of the company or proposed actions arising there from, that are expressed by a director in a Board meeting. The Company Secretary is also secretary to all of the Board's Sub-Committees. The Company Secretary is available to give ongoing advice to all directors on Board procedures and corporate governance matters.

Attendance at Board meetings

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

Director	Meetings Attended/Total Meetings Held
IH Beattie	10/10
AM Bates	10/10
IJ Limond	10/10
RW Beebe	10/10
S-A David	10/10
D Farrimond	9/10
MJ Mann	10/10
RP Lawrence	9/10
IA Hardman	8/10

Guernsey Electricity Limited

Corporate governance - continued

Performance evaluation

The Board undergoes an annual evaluation of its performance. The last assessment was for the period up to 30 April 2012 and the next assessment is currently taking place. The evaluation consists of an internally produced confidential questionnaire, which is independently assessed by the Company Secretary who then prepares a report for consideration by the Board.

Election and re-election of directors

Guernsey Electricity's Articles of Incorporation require that non-executive directors retire by rotation but provide that they are eligible for re-election. Non-executive directors are submitted for re-election in accordance with the principles agreed with the company's shareholder. Non-executive directors serve the company under letters of appointment, which are generally for an initial three year term.

At the 2013 annual general meeting, Mr I H Beattie is being recommended by the Board and will be proposed for re-election. Mr D Farrimond will retire from the Board at the 2013 annual general meeting in accordance with the principles agreed with the shareholder.

Remuneration

The Board recognises the importance of executive directors' remuneration in recruiting, retaining and motivating the individuals concerned. Executive directors' remuneration consists of basic salary, benefits in kind, bonus and retirement benefits. Fees for the Chairman and non-executive directors are determined by the Treasury & Resources Department.

The Remuneration & Nominations Sub-Committee, which is chaired by Martyn Mann, consists solely of a minimum of two non-executive directors and determines remuneration levels and specific packages appropriate for each executive director, taking into account the company's annual salary negotiations. No director is permitted to be involved in any decision in relation to his/her own remuneration. The Remuneration & Nominations Sub-Committee considers that the procedures in place provide a level of remuneration for the directors which is both appropriate for the individuals concerned and in the best interests of the shareholder.

The Remuneration & Nominations Sub-Committee is also tasked with considering the balance of the Board, director and senior management job descriptions and objective criteria for Board appointments and succession planning.

Accountability and Audit

Financial reporting

The company has a comprehensive system for reporting the financial performance of the company and each of its business units. Management and the Board of Directors review these monthly. The financial statements for the accounting period ending on the accounting reference date of 31 March are reviewed and signed on behalf of the Board of Directors, and will be presented to the shareholder at the forthcoming annual general meeting.

Guernsey Electricity Limited

Corporate governance - continued

Internal control and risk management

During 2012/13 the executive team undertook a comprehensive review of the risks facing the business, ensuring that there are robust controls and actions in place to manage them. The Board approved the approach and receives biannual updates on progress. The risk management process is the responsibility of the Corporate Strategy Director.

All Directors are responsible for establishing and maintaining an effective system of internal control. Whilst all elements of risk cannot be eliminated, the system aims to identify, assess, prioritise and where possible, mitigate the company's risks. Although no system of internal control can provide absolute assurance against material misstatement or loss, the company's systems are designed to provide the Board with reasonable assurance that assets are safeguarded, transactions are properly authorised and recorded and that material errors and irregularities are either prevented or detected within a timely period.

The Board obtains its assurance on the effectiveness of the system of internal control from a variety of sources, including internal audit, regular updates on risk management and internal control, health and safety, monthly management information and representations from the executive team.

Internal audit has a continuing role in monitoring and reporting on business risks. This service continues to be provided by RSM Tenon, a leading entity in providing such services. The Corporate Strategy Director, in association with RSM Tenon, reports on all internal audit work in accordance with the plan approved by the Audit & Risk Sub-Committee. Specialist engineering audits complement this, again as approved by the Audit & Risk Sub-Committee.

The company has established controls and procedures over the security of data held on IT systems and has in place comprehensive disaster recovery arrangements. These arrangements are tested regularly and reviewed by independent consultants.

Audit & Risk Sub-Committee and Auditor

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

The Board has delegated responsibility to the Audit & Risk Sub-Committee for reviewing an effective system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under the law, ensuring the proportionate and relevant application of good practice principles in corporate governance and managing the company's relationship with the company's external auditor. The Audit & Risk Sub-Committee members comprise non-executive directors. David Farrimond, who is a qualified accountant, is the Chairman of the Audit & Risk Sub-Committee and the Board is satisfied that he has recent and relevant financial experience to enable the duties of the Sub-Committee to be fully discharged.

The Audit & Risk Sub-Committee meets at least once a year with representatives of the company's external auditor.

Guernsey Electricity Limited

Corporate governance - continued

Audit & Risk Sub-Committee and Auditor - continued

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

For the period from 1 April 2012 to 15 November 2012:

Chairman: Mr D Farrimond
Members: Mr M J Mann
Mr R P Lawrence
Mr I A Hardman

From 15 November 2012 to date:

Chairman: Mr D Farrimond
Members: Advocate I H Beattie
Mr R P Lawrence

Attendance during the year for Audit & Risk Sub-Committee meetings is given in the table below:

Director	Meetings Attended/Total Meetings Held
D Farrimond	6/6
MJ Mann	3/3
IA Hardman	1/3
RP Lawrence	6/6
IH Beattie	2/2

Sub-Committees of the Board and main terms of reference

In addition to regular scheduled Board meetings, the company operates through Board Sub-Committees, of which the main terms of reference are set out below (except the Audit & Risk Sub-Committee which is outlined above).

Remuneration & Nominations Sub-Committee

Martyn Mann is the Chairman of the Remuneration & Nominations Sub-Committee.

The purpose of the Remuneration & Nominations Sub-Committee is to assist the Board in the effective discharge of its responsibilities for the remuneration and other employment conditions of executive directors and senior management and to act as a Nominations Sub-Committee as the need arises.

In deciding the remuneration and other employment conditions of executive directors, the Sub-Committee acts independently of the executive and seek to safeguard the interests of the company's shareholder.

Guernsey Electricity Limited

Corporate governance – continued

Remuneration & Nominations Sub-Committee - continued

In respect of remuneration matters the Sub-Committee's responsibilities include:

- The determination, maintenance, and development of documentation, detailing broad company policy and clear, formal and transparent procedures in regard to remuneration and performance related issues in respect of executive and senior management remuneration, bonus and performance matters. This is done on behalf of the Board and all significant policy and procedural changes in relation to remuneration matters must be approved by the whole Board.

- The determination of the remuneration and other employment conditions of executive directors and senior management (including contractual issues) with the objective of ensuring that executive directors and senior management are provided with appropriate incentives which will encourage enhanced performance and that they are competitively, fairly and responsibly rewarded for their individual contributions to the company's overall performance.

In respect of nomination matters, the main terms of reference of this Sub-Committee are to review regularly the structure, size and composition of the Board and to make recommendations on the role and nomination of directors for appointment to the Board, Board Sub-Committees and as holders of any executive office.

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

For the period from 1 April 2012 to 15 November 2012:

Chairman: Mr M J Mann
Members: Advocate I H Beattie
Mr I A Hardman
Mr R P Lawrence

From 15 November 2012 to date:

Chairman: Mr M J Mann
Members: Advocate I H Beattie
Mr I A Hardman

Attendance during the year for Remuneration & Nominations Committee meetings is given in the table below:

Director	Meetings Attended/Total Meetings Held
MJ Mann	9/9
IH Beattie	7/9
IA Hardman	8/9
RP Lawrence	3/5

Guernsey Electricity Limited

Corporate governance - continued

Land & Property Sub-Committee

Iain Limond is Chairman of the Land & Property Sub-Committee. The main terms of reference for this Committee are to review and approve all routine property transactions undertaken by the company up to a limit set by the Board and to undertake such other tasks relating to land and property as directed by the Board. This Sub-Committee comprises the company Chairman together with all of the executive directors.

Attendance during the year for Land & Property Sub-Committee meetings is given in the table below:

Director	Meetings Attended/Total Meetings Held
IJ Limond	4/5
S-A David	4/5
RW Beebe	5/5
IH Beattie	5/5
AM Bates	3/5

Relations with the shareholder

The company's issued share capital is wholly owned by the States of Guernsey. The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, as amended, provided for the States of Guernsey Advisory & Finance Committee (now Treasury & Resources Department) to undertake, on behalf of the States, the role of shareholder. In accordance therewith, the share certificates for the whole issued share capital are held equally in the names of the Minister and Deputy Minister of the Treasury & Resources Department, in trust, as nominees, on behalf of the States of Guernsey. Provision is also in place for the States to give guidance to the Treasury & Resources Department on the policies it wishes to be pursued in fulfilling this role. Each year, the company submits its forward plan to the Treasury & Resources Department. In addition, the company has signed a memorandum of understanding with the States' shareholder representative concerning the manner in which the company and its shareholder's representatives will interact in respect of stewardship and corporate governance matters generally.

Guernsey Electricity Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

We have audited the financial statements of Guernsey Electricity Limited (the "Company") for the year ended 31 March 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its loss for the year then ended;
- are in accordance with United Kingdom Accounting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited
KPMG Channel Islands Limited
Chartered Accountant

17 June 2013

Guernsey Electricity Limited

Profit and loss account

for the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Turnover	*2*	**56,443**	51,887
Cost of sales		**(48,140)**	(35,870)
Gross profit		**8,303**	16,017
Net operating expenses		**(11,714)**	(11,349)
Operating (loss) / profit	*3*	**(3,411)**	4,668
Loss on disposal of assets		**(235)**	(27)
(Loss) / profit on ordinary activities before interest, other finance cost and other income		**(3,646)**	4,641
Interest receivable	*4*	**257**	521
Interest payable	*4*	**(1)**	(1)
Other finance cost		**(161)**	(103)
Other income	*5*	**198**	-
(Loss) / profit on ordinary activities before taxation		**(3,353)**	5,058
Taxation	*6*	**831**	(1,032)
(Loss) / profit for the financial year after taxation		**(2,522)**	4,026

All activities derive from continuing operations.

The notes on pages 23 to 40 form an integral part of these financial statements.

Guernsey Electricity Limited

Statement of total recognised gains and losses
for the year ended 31 March 2013

	Note	**2013 £'000**	2012 £'000
(Loss) / profit for the financial year		**(2,522)**	4,026
Actuarial loss recognised in the pension scheme	*24*	**(1,540)**	(7,218)
Movement on deferred tax relating to pension deficit	*14*	**301**	1,394
Total recognised loss for the year		**(3,761)**	(1,798)

The notes on pages 23 to 40 form an integral part of these financial statements.

Guernsey Electricity Limited

Balance sheet
at 31 March 2013

	Note	2013 £'000	2012 £'000
Tangible fixed assets	8	**100,186**	93,527
Current assets			
Stocks and work in progress	9	**7,236**	7,830
Debtors and prepayments	10	**12,525**	10,762
Balances with States Treasury	11	**4,346**	16,829
Cash at bank and in hand		**4,632**	253
		28,739	35,674
Creditors: amounts falling due within one year	12	**(10,612)**	(8,629)
Net current assets		**18,127**	27,045
Total assets less current liabilities		**118,313**	120,572
Creditors: amounts falling due after more than one year	13	**(4,057)**	(3,874)
Provision for liabilities and charges	14	**(619)**	(1,222)
Net pension deficit	24	**(15,178)**	(13,256)
Net assets including pension deficit		**98,459**	102,220
Share capital	15	**109,209**	109,209
Reserves	19	**(10,750)**	(6,989)
Shareholders' funds	20	**98,459**	102,220

The financial statements on pages 19 to 40 were approved by the Board of Directors on 17 June 2013.

Signed on behalf of the Board of Directors

IH Beattie

IJ Limond
Directors

The notes on pages 23 to 40 form an integral part of these financial statements.

Guernsey Electricity Limited

Cash flow statement
for the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Net cash inflow from operating activities	*16*	**2,191**	8,600
Returns on investments and servicing of finance			
Interest received		**241**	521
Interest paid		**(1)**	(1)
Net cash inflow from returns on investments and servicing of finance		**240**	520
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(11,050)**	(6,226)
Proceeds of disposal of tangible fixed assets		**12**	114
Customers' contributions towards capital expenditure		**305**	346
Net cash outflow from capital expenditure and financial investment		**(10,733)**	(5,766)
Equity dividends paid	*7*	-	(484)
Other income	*5*	**198**	-
Net cash (outflow) / inflow before use of liquid resources and financing		**(8,104)**	2,870
Management of liquid resources			
Net cash movements with States Treasury		**(12,483)**	3,050
Increase / (decrease) in cash	*17 & 18*	**4,379**	(180)
Net cash (outflow) / inflow		**(8,104)**	2,870

Movements in balances with States Treasury and the other income are deemed liquid resources in accordance with Financial Reporting Standard 1, "Cash Flow Statements", ("FRS1") (as revised).

The notes on pages 23 to 40 form an integral part of these financial statements.

Notes to the financial statements

Year ended 31 March 2013

1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Basis of preparation

The financial statements have been prepared under the historical cost convention, they give a true and fair view, have been prepared in accordance with UK GAAP and are in compliance with the Companies (Guernsey) Law, 2008.

Transfer of undertaking

The company was established in accordance with the provisions of the States Trading Companies (Bailiwick of Guernsey) Law 2001 (Commencement) Ordinance and the States Trading Companies (Bailiwick of Guernsey) Ordinance 2001 to take over the generation, importation and distribution of electricity previously carried out by the States of Guernsey Electricity Board with effect from 1 February 2002.

Sales of electricity

Sales of electricity are accounted for on an accruals basis and include the estimated value of unbilled units at the year end. The unbilled units are valued at current tariff rates.

Hire purchase

The company provides hire purchase facilities on the provision of goods and services ancillary to the principal activities of the company. The sales value is included in turnover at the inception of the hire purchase transaction and interest is included in interest receivable over the finance period of the transaction.

Interest

Interest receivable and payable are accounted for on an accruals basis.

Deferred income

Customers' contributions towards capital expenditure are credited in equal annual amounts to the profit and loss account over the estimated life of the assets to which they relate.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Assets transferred from the States of Guernsey Electricity Board as at 1 February 2002 are being depreciated over their residual estimated useful lives from that date applying the periods noted below.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2013

1. Principal accounting policies - continued

Tangible fixed assets and depreciation - continued

Depreciation is calculated so as to write off the cost of tangible fixed assets over the period of their estimated useful lives using the straight line method. The estimated life of each class of fixed asset is set out below. Depreciation commences in the year of acquisition, or on completion of construction. Any shortfall of depreciation arising on the disposal, or write-off, of fixed assets is charged to the disposals account and any proceeds arising from the disposal are credited to that account. Land is not depreciated. The estimated lives are as shown below:

		Estimated life in years
Buildings		40
Buildings Equipment		10
Cable Link		25
Plant and machinery	- Generation	25 – 35
	- Distribution	35
	- Street Lights	20
Distribution network comprising:		
Distributors		35
Meters		5 – 15
Cyclocontrol receivers		5
Motor vehicles		5
Furniture and equipment		3 – 10
Minor plant		5 – 10

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. In respect of goods held for resale, a provision is made based on the time elapsed since the goods were purchased. Provision is made for other stocks relating to strategic plant, based upon the remaining useful economic life of the assets to which they relate.

Leases

Operating lease rentals are charged to profit and loss in equal annual amounts over the lease term.

Deferred taxation

Provision for deferred tax is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise, based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. The pension scheme deficit shown in the accounts is net of the deferred tax asset. Deferred tax assets and liabilities are not discounted.

Notes to the financial statements - continued

Year ended 31 March 2013

1. Principal accounting policies - continued

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Foreign currency profits and losses are dealt with in the profit and loss account.

Financial instruments

The company enters into forward exchange contracts to mitigate the risk of fluctuations in the currency rate between the Euro and the Pound Sterling in meeting its financial obligations for the import of electricity units from the European grid and on major infrastructure projects, including the new on-island generator, 2D. Gains and losses on these contracts are deferred and recognised in the profit and loss account only when the delayed transaction has itself been reflected in the company's account. The company does not hold, or issue, financial instruments for speculative purposes. The company also hedges against the fluctuation in the price of heavy fuel oil, including the movement in the US Dollar, which is inherent in the pricing. Gains and losses are recognised in the profit and loss account when realised.

Pension costs

The employees' pension scheme is a defined benefits scheme. The company applies Financial Reporting Standard 17, "Post retirement benefits", ("FRS17"). In so doing, current service cost and any past service cost is charged to the profit and loss account, together with finance costs/income for the scheme which are charged/credited to the profit and loss account. The difference between the expected and actual actuarial gains and losses are charged to the statement of total recognised gains and losses. Full actuarial valuations are carried out on a triennial basis and annual updates are carried out to disclose the values and assumptions in accordance with FRS17.

Joint arrangements

The Channel Islands Electricity Grid Limited is a joint arrangement between Jersey Electricity plc and Guernsey Electricity Limited. The company was formed to manage the project and the ongoing operation of the cable link between Guernsey, Jersey and France. In accordance with Financial Reporting Standard 9, "Associates and Joint Ventures", ("FRS9"), these financial statements include the company's entitlement to the assets, liabilities, cash flows and the shared items of this joint arrangement where the company's entitlements are fully determined by contracts with the other party to the joint arrangement.

Notes to the financial statements - continued

Year ended 31 March 2013

2. Turnover

	2013 £'000	2012 £'000
Sales of electricity	**52,894**	48,257
Other sales	**3,549**	3,630
	56,443	51,887

All sales of electricity arise from customers in the Island of Guernsey. Other sales are made to customers throughout the Bailiwick of Guernsey. As stated in the accounting policy for sales of electricity, each year an estimate of the unbilled units as at 31 March is determined.

3. Operating (Loss) / profit

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

	2013 £'000	2012 £'000
Depreciation (note 8)	**5,632**	5,521
Rentals under operating leases	**12**	12
Auditor's remuneration - statutory audit	**33**	36
Bad debts	**65**	31
Emoluments		
- non-executive directors	**53**	41
- executive directors		
- basic remuneration	**455**	349
- other benefits (including pension costs under FRS17)	**180**	136
Regulatory costs - external (excluding non-audit services)	**129**	360
- internal	**71**	133
Other operating income	**(668)**	(609)

Notes to the financial statements - continued
Year ended 31 March 2013

4. Interest

	2013	2012
	£'000	£'000
Interest receivable:		
Deposits with banks and States Treasury	**122**	380
Hire purchase	**135**	141
	257	521
Interest payable:		
Security deposits	**1**	1
	1	1

5. Other income

Of the £5,350,000 that the States of Guernsey Electricity Board had on deposit with the Bank of Credit and Commerce International when it ceased trading on 5 July 1991, £5,623,633 has been recovered. £197,477 was received in the current year (2012: £Nil). Distributions by the liquidator are denominated in US Dollars and therefore exposed to Sterling / Dollar fluctuations. This represents a full recovery of the original capital deposit together with interest.

6. Taxation

The company's profits or losses from the activities subject to licence from the Guernsey Competition and Regulatory Authority (formerly the Office of Utility Regulation) will be chargeable to tax at the company higher rate of 20%, as will rental income from Guernsey properties. For all other company activities, the company standard rate of 0% is applicable. The tax adjusted profits of the company have been determined so that the appropriate amounts are taxed at the applicable rate.

The basis of assessment to Guernsey tax continues to be on an actual current year basis. The assessable profits for the current year have been offset against the unrelieved trading losses and excess capital allowances carried forward from prior years. Consequently, all tax is deferred and there is no tax payable for the current year.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2013

6. Taxation - continued

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. Various rates of income tax are applied depending on the activity of the company. The rate applied in relation to the company's activities is a combination of the company standard rate and the company higher rate. Deferred tax has been provided on timing differences depending on which rate they are expected to reverse out in the future. Where deferred tax balances relate to items which may be taxed at either 20% or 0% a blended rate of 19.6173% (2012: 19.3209%) has been used to provide for deferred tax. The blended rate has been calculated by reference to the company's effective rate of tax in the year ended 31 March 2013.

The deferred tax (credit) / charge in the profit and loss account for the year is:

	2013	2012
	£'000	£'000
Timing differences on capital allowances and depreciation	**(50)**	71
Short term timing differences (pension)	**(228)**	(92)
Short term timing differences (other)	**(55)**	(26)
Movement on unrelieved trading losses	**(498)**	1,079
	(831)	1,032

7. Dividend

	2013	2012
	£'000	£'000
Paid in the year, £Nil per share (2012: £0.0044 per share paid)	-	484
Proposed dividend of £Nil per share (2012: £0.0092 per share proposed)	-	1,000

8. Tangible fixed assets

	1 April 2012 £'000	Additions £'000	Written off/ disposals £'000	**31 March 2013 £'000**
Cost				
Land and buildings	30,496	110	17	**30,589**
Cable link	28,948	675	307	**29,316**
Plant and machinery:				
Generation	37,395	9,074	-	**46,469**
Distribution	11,811	274	38	**12,047**
Distribution network	29,466	1,884	84	**31,266**
Motor vehicles, furniture and equipment, minor plant	5,010	521	105	**5,426**
	143,126	12,538	551	**155,113**

	1 April 2012 £'000	Charge for the year £'000	Written off/ disposals £'000	**31 March 2013 £'000**
Depreciation				
Land and buildings	8,490	905	15	**9,380**
Cable link	12,593	1,260	147	**13,706**
Plant and machinery:				
Generation	15,584	1,429	-	**17,013**
Distribution	2,361	352	13	**2,700**
Distribution network	7,704	1,100	27	**8,777**
Motor vehicles, furniture and equipment, minor plant	2,867	586	102	**3,351**
	49,599	5,632	304	**54,927**
Net book value	93,527			**100,186**

Included above are assets in the course of construction of £13,352,000 (2012: £3,924,000), which are not depreciated.

9. Stocks and work in progress

	2013		2012	
	£'000	**£'000**	£'000	£'000
Fuel stocks		**5,109**		5,330
Purchased goods for resale	**283**		317	
Provision	**(3)**	**280**	(5)	312
Other stocks	**3,444**		3,526	
Provision	**(1,743)**	**1,701**	(1,469)	2,057
Work in progress		**146**		131
		7,236		7,830

10. Debtors and prepayments

	2013	2012
	£'000	£'000
Estimated value of unbilled units	**7,867**	6,535
Customer accounts outstanding	**3,687**	3,173
Other debtors	**360**	683
Prepayments	**611**	371
	12,525	10,762

Included in "Customer accounts outstanding" is an amount totalling £293,000 (2012: £309,000) due after more than one year.

11. Balances with States Treasury

The Treasury Department of the States of Guernsey is engaged to invest the company's liquid funds in excess of its daily requirements.

Guernsey Electricity Limited

Notes to the financial statements - continued

Year ended 31 March 2013

12. Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Trade creditors	**4,361**	2,778
Customer payments received in advance	**4,833**	4,646
Employee taxes and Social Security	**168**	157
Deferred income	**146**	137
Accruals and other creditors	**1,104**	911
	10,612	8,629

The company has a £750,000 overdraft facility with Barclays Bank Plc (2012: £750,000), and interest is payable quarterly at 1.75% over UK base rate. This facility is unsecured, is repayable on demand and is reviewed and approved by the Board annually. The facility is due for review on 22 January 2014. The States of Guernsey, by way of resolution at its meeting on 15 December 2011, authorised the Treasury & Resources Department to make an overdraft facility of £5m available to the company for a four year period from 1 January 2012 with interest payable at the States Treasury rate.

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

	2013 £'000	2012 £'000
Deferred income	**4,057**	3,874

14. Provision for liabilities and charges

	2013 £'000	2012 £'000
Deferred taxation:		
Balance at 1 April	**(1,953)**	(1,591)
Profit and loss account (credit) / charge	**(831)**	1,032
Statement of total recognised gains and losses	**(301)**	(1,394)
Balance at 31 March	**(3,085)**	(1,953)
Which comprises:		
Capital allowances in excess of depreciation	**7,609**	7,659
Short-term timing differences (other)	**(193)**	(138)
Unrelieved trading loss for tax purposes	**(6,797)**	(6,299)
Provision for liabilities and charges	**619**	1,222
Deferred tax asset on pension deficit (note 24)	**(3,704)**	(3,175)

15. Share capital

	2013 £'000	2012 £'000
Authorised:		
125,000,000 ordinary shares of £1 each	**125,000**	125,000
Issued and fully paid:		
109,208,844 ordinary shares of £1 each	**109,209**	109,209

Two shares were issued on formation of the company and the remaining 109,208,842 shares were issued to equate to the consideration of £109,208,844 for the net assets acquired by the company from the States of Guernsey with effect from 1 February 2002.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2013

16. Reconciliation of operating (loss) / profit to net cash inflow from operating activities

	2013 £'000	2012 £'000
Operating (loss) / profit	**(3,411)**	4,668
Depreciation charge	**5,632**	5,521
Pension service cost	**1,812**	1,579
Employer's pension cash contributions	**(1,062)**	(1,234)
Deferred income	**(146)**	(137)
Decrease / (increase) in stocks and work in progress	**594**	(1,832)
Increase in debtors and prepayments	**(1,747)**	(487)
Increase in creditors	**519**	522
	2,191	8,600

17. Reconciliation of net cash flow to movement in net funds

	2013 £'000	2012 £'000
Increase / (decrease) in cash in the year	**4,379**	(180)
Cash used to (decrease) / increase liquid resources	**(12,483)**	3,050
Change in net funds	**(8,104)**	2,870
Net funds at 1 April	**17,082**	14,212
Net funds at 31 March	**8,978**	17,082

18. Analysis of changes in net funds

	At 1 April 2012 £'000	Cash flows £'000	At 31 March 2013 £'000
Cash			
Cash at bank and in hand	253	4,379	**4,632**
	253	4,379	**4,632**
Balances with States Treasury	16,829	(12,483)	**4,346**
	17,082	(8,104)	**8,978**

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2013

19. Reserves

	2013 £'000	2012 £'000
Balance at 1 April brought forward	**(6,989)**	(4,707)
(Loss) / profit for the financial year	**(2,522)**	4,026
Dividend	**-**	(484)
Actuarial loss recognised in the pension scheme, net of movement in deferred tax relating to pension deficit	**(1,239)**	(5,824)
Balance at 31 March carried forward	**(10,750)**	(6,989)

20. Reconciliation of movements in shareholders' funds

	2013 £'000	2012 £'000
Shareholders' funds at 1 April brought forward	**102,220**	104,502
(Loss) / profit for the financial year	**(2,522)**	4,026
Dividend	**-**	(484)
Actuarial loss recognised in the pension scheme, net of movement in deferred tax relating to pension deficit	**(1,239)**	(5,824)
Shareholders' funds at 31 March	**98,459**	102,220

21. Commitments

Capital commitments, for which no provision has been made in these financial statements, amounted to £6,117,000 as at 31 March 2013 (2012: £14,521,000). These relate to outstanding commitments on capital projects across a range of asset categories.

Cable link commitments
For the import of power from the European Grid, the company has a contract with Electricite de France ("EdF"). The previous contract expired on 31 December 2012. A new electricity import contract with EdF is effective for a 10 year period which commenced from 1 January 2013. The related transmission agreement with Reseau de transport d'electricite ("Rte") also commenced from 1 January 2013. Under the import contract, there is a take or pay commitment, whereby the company is jointly and severally liable, along with the Channel Islands Electricity Grid Limited ("CIEG") and Jersey Electricity plc, for a block of power over the term of the contract. The price at which the take or pay block is charged increases annually over the period of the contract and for calendar year 2014 this equates to a total commitment of €8.3m (2013: €7.9m) for Guernsey Electricity Limited.

Operating lease commitments
Commitments to make payments during the next year in respect of an operating lease are as follows:

	2013 £'000	2012 £'000
Land and Buildings		
Lease which expires:		
Within one year	**-**	-
Within two to five years	**12**	12

Notes to the financial statements - continued
Year ended 31 March 2013

22. Financial instruments

(a) Import Financial Hedge

Our import contracts with EdF and Rte are denominated in Euros. The company has entered into forward and participating forward currency exchange contracts to manage the currency risk. The company's commitment to forward contracts at the balance sheet date was as follows:

	€'000	€'000	€'000	**2013 €'000 Total**	2012 €'000
Forward contracts to purchase Euro	2,415	875	2,282	**5,572**	13,056
	£'000	£'000	£'000	**£'000**	£'000
Contracted prices	2,082	764	1,932	**4,778**	11,359
Closing value at 31 March	2,037	738	1,925	**4,700**	10,882
Unrecognised and unrealised loss	(45)	(26)	(7)	**(78)**	(477)

If the spot exchange rate falls below the forward rate, the company is protected by forward contracts to purchase Euros as follows:

	€'000	€'000	€'000	**2013 €'000**	2012 €'000
Forward contracts to purchase Euro	3,450	1,250	3,260	**7,960**	18,510
Forward exchange rate	1.1600	1.1460	1.1810		

The sterling/euro rate at 31 March 2013 was 1.1853 (2012: 1.1997).

Notes to the financial statements - continued
Year ended 31 March 2013

22. Financial instruments - continued

(b) On-island Generation Financial Hedge

The company has entered into a financial hedge on the commodity price of heavy fuel oil used for its on-island generation. The commitment to this is for an annual volume for financial year 2013/14 of 32,500 metric tonnes at an average price of £415.72/metric tonne and for financial year 2014/15 of 5,000 metric tonnes at an average price of £413.00/metric tonne.

(c) 2D Project Hedge

The main contract for the new medium speed diesel engine, 2D, is also denominated in Euros. The company has entered into forward and participating forward currency exchange contracts to manage the currency risk. The company's commitment to forward contracts at the balance sheet date was as follows:

	2013	2012
	€'000	€'000
	Total	
Forward contracts to purchase Euro	**174**	10,038
	£'000	£'000
Contracted prices	**148**	8,548
Closing value at 31 March	**147**	8,367
Unrecognised and unrealised loss	**(1)**	(181)

If the spot exchange rate falls below the forward rate, the company is protected by forward contracts to purchase Euros as follows:

	2013	2012
	€'000	€'000
Forward contracts to purchase Euro	**218**	12,330
Forward exchange rate	**1.1731**	

23. Contingent liabilities

(a) Vibration complaints

The company has held discussions with the Environmental Health Department concerning complaints about vibration arising from operating certain of the engines used for on-island generation. A corrective plan has been proposed by Guernsey Electricity. The Department have agreed to this plan of action and will monitor performance against it. The cost of this corrective work is between £20,000 and £30,000. This agreed approach is an alternative to that previously considered. If it is not totally successful, additional measures will have to be considered by the company.

(b) Software licence claim

A claim has been made against the company by one of its suppliers relating to an alleged infringement of software licence terms. The company is taking legal advice in respect of this claim. The directors are of the opinion that the claim can be resisted and have therefore made no provision in the accounts.

24. Pension Scheme

Employee benefit obligations for Guernsey Electricity Limited

The employees of the company are members of the States of Guernsey Public Servants Pension Scheme (PSPS). This is a defined benefits pension scheme funded by contributions from both employer and employee to the PSPS at rates which are determined on the basis of independent actuarial advice, and which are calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

As the PSPS is a multi entity arrangement, the States of Guernsey contracted the Scheme's qualified independent actuaries to identify the actuarial account for each entity and, therefore, the value of the pension fund assets and liabilities attributable to this company. The triennial valuation at 31 December 2010 recommended the decrease of employer's contribution from 17.3% to 14.6% from 1 April 2012 and this was approved by the States of Guernsey. The value of these employer contributions to the Fund from 1 April 2013 to 31 March 2014 are estimated at £1,118,000.

The next triennial actuarial valuation of the PSPS is due as at 31 December 2013.

Description of the Guernsey Electricity Limited Actuarial Account of the States of Guernsey Superannuation Fund ("the Fund")

The Fund is a funded defined benefit arrangement which provides retirement benefits based on final pensionable salary.

The company recognises the requirements of Financial Reporting Standard 17 ("FRS17") Retirement Benefits on the following basis:

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

24. Pension Scheme - continued

The amounts recognised in the balance sheet are as follows:

	2013	2012
	£'000	£'000
Fair value of Fund assets	**47,981**	43,184
Present value of funded obligations	**(66,863)**	(59,615)
Deficit in scheme	**(18,882)**	(16,431)
Related deferred tax asset	**3,704**	3,175
Net pension liability	**(15,178)**	(13,256)

The amounts recognised in the profit and loss account are as follows:

	2013	2012
	£'000	£'000
Current service cost	**1,812**	1,579
Interest on obligation	**2,650**	2,796
Expected return on Fund assets	**(2,489)**	(2,693)
Expense recognised in the profit and loss	**1,973**	1,682
Actual return on Fund assets	**(4,687)**	(73)

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2013

24. Pension Scheme - continued

Changes in the present value of the defined benefit obligation are as follows:

	2013	2012
	£'000	£'000
Opening defined benefit obligation	**59,615**	51,521
Service cost	**1,812**	1,579
Interest cost	**2,650**	2,796
Contributions by members	**479**	470
Actuarial losses	**3,738**	4,598
Benefits paid	**(1,431)**	(1,349)
Closing defined benefit obligation	**66,863**	59,615

Changes in the fair value of Fund assets are as follows:

	2013	2012
	£'000	£'000
Opening fair value of Fund assets	**43,184**	42,756
Expected return	**2,489**	2,693
Actuarial gains / (losses)	**2,198**	(2,620)
Contributions by employer	**1,062**	1,234
Contributions by members	**479**	470
Benefits paid	**(1,431)**	(1,349)
Closing fair value of Fund assets	**47,981**	43,184

Analysis of amounts recognised in the statement of total recognised gains and losses (STRGL):

	2013 **£'000**	2012 £'000
Total actuarial losses	**(1,540)**	(7,218)
Total loss recognised in STRGL	**(1,540)**	(7,218)
Cumulative amount of loss recognised in STRGL	**(21,715)**	(20,175)

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2013

24. Pension Scheme - continued

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	2013	2012
	%	%
Equities	**69**	67
Gilts	**4**	4
Corporate bonds	**15**	15
Property	**7**	6
Other assets	**5**	8

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages where applicable):

	31 March 2013	31 March 2012
	% p.a.	% p.a.
Discount rate	**4.5**	4.5
Expected return on Fund assets at 31 March (for following year)	**5.8**	5.8
Rate of increase in pensionable salaries	**4.35**	4.05
Rate of increase in deferred pensions	**3.6**	3.3
Rate of increase in pensions in payment	**3.6**	3.3

Mortality Assumptions

The mortality assumptions are based on standard mortality tables, which allow for future mortality improvements. The assumptions are that a member aged 65 will live, on average, until age 87, if they are male, and until age 90, if female. For a member currently aged 45, the assumptions are that, if they attain age 65, they will live on average until age 89, if they are male, and until age 92, if female.

Description of the basis used to determine the expected rate of return on the assets

The company adopts a building block approach in determining the expected rate of return of the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns, consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

Guernsey Electricity Limited

Notes to the financial statements - continued
Year ended 31 March 2013

24. Pension Scheme - continued

Amounts for the current and previous periods are as follows:

	2013	2012	2011	2010	2009
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	**66,863**	59,615	51,521	51,168	35,273
Fund assets	**47,981**	43,184	42,756	37,560	28,610
Deficit	**(18,882)**	(16,431)	(8,765)	(13,608)	(6,663)
Experience gains / (losses) on Fund assets	**2,198**	(2,620)	1,860	6,068	(10,805)
Experience gains on Fund liabilities	**28**	932	504	1,208	426
Change in assumptions underlying the Present value of Fund liabilities	**(3,766)**	(5,530)	2,835	(14,464)	355
Total Experience (losses)/gains on Fund liabilities	**(3,738)**	(4,598)	3,338	(13,256)	780

The balance sheet position in respect of the Actuarial Account has worsened, as the effect of the economic assumptions derived from the market has more than offset the increasing asset value.

An important financial factor underlying the change in assumptions item was the change in relationship between the corporate bond discount rate and the market derived assumption for future inflation. The inflation assumption increased by 0.3%, while the discount rate remained the same. The effect of the change in assumptions was to increase the value placed on liabilities. On the other hand, the balance sheet improved due to the actual investment return being higher than expected. The net position was an increase of around £2.5m in the deficit determined under FRS17.

25. Statement of control

The company is wholly owned and ultimately controlled by the States of Guernsey.

26. Related party transactions

There are no disclosable related party transactions in this financial year. Of the company's annual income and expenditure, less than 20% of their respective value is due to transactions with other States entities.

27. Post Balance Sheet Event

On 29 May 2013 the company entered into an Agreement with Jersey Electricity plc as part of the joint arrangement, the Channel Islands Electricity Grid Limited, to participate in the delivery and evaluation of a number of new cable initiatives. These are as follows:

- The "Normandie 3" project which will see the installation of a new cable between Jersey and France in 2014;
- The "Normandie 1" project which will see an overlay of the failed EDF1 cable between Jersey and France. Subject to planning permission from the French authorities it is anticipated that this will be completed in 2016; and
- The "GJ2" project which will involve the full scoping, assessment and evaluation of a project to install a second additional cable between Guernsey and Jersey.

The company's share of the cost of the investment in the Normandie 1 and 3 cables is estimated to be £30m. This will entitle the company to an importation capacity of 60MW. The company is seeking to finance this investment through a debt facility.

APPENDIX 2

TREASURY AND RESOURCES DEPARTMENT

GUERNSEY POST LIMITED – SUBMISSION OF ANNUAL ACCOUNTS

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

21st August 2013

Dear Sir

Under section 8 of the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001, the Department is required to publish on an annual basis the accounts and annual reports of Guernsey Post as an appendix to a Billet. I therefore submit the Report and Financial Statements of Guernsey Post Limited for the year ended 31st March 2013.

The company made a profit on ordinary activities before taxation of £556,000, which is an improvement on 2012 when a profit of £357,000 was achieved. As a consequence, a dividend of £139,000 has been paid to the States (2012: £89,000).

The trading environment within which Guernsey Post has operated over the last year has been exceptionally difficult, given the loss of Low Value Consignment Relief and an ongoing decline in core mail volumes as customers increasingly turn to the use of social and electronic media. Against this background, Guernsey Post's increase in profits is an impressive result on which the company should be congratulated. It is a credit to the directors, management and staff throughout the company and reflects their tenacity, flexibility and hard work in addressing the challenges they have faced together.

Furthermore, following a further review of its asset portfolio and capital requirements, the Company intends to return £3.5million to the shareholder in the form of a buyback of shares. The necessary recommendations to give effect to this will be included within the 2014 Budget Report.

I should be grateful if you would include this matter as an Appendix to the Billet d'Etat for October 2013.

Yours faithfully

Gavin St Pier
Minister

2023

Annual report and financial statements
for the year ended 31 March 2013

GUERNSEY POST

CORPORATE DETAILS

Directors:
Dudley R Jehan (Chairman)
Boley Smillie (Chief Executive)
Richard J Hemans (Finance)
Steve Hannon (Non-Executive)
Andrew Duquemin (Non-Executive)
Stuart Le Maitre (Non-Executive)
Simon Milsted (Non-Executive)

Auditors:
KPMG Channel Islands Limited
Chartered Accountants
PO Box 20
20 New Street
St Peter Port
GUERNSEY
GY1 4AN

Actuaries:
BWCI Consulting Limited
Actuaries and Consultants
PO Box 68
Albert House
South Esplanade
St Peter Port
GUERNSEY
GY1 3BY

Registered office:
Envoy House
La Vrangue
St Peter Port
GUERNSEY
GY1 1AA

Greffe Registration Number: 38693

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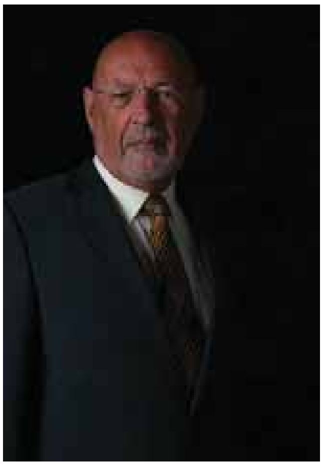
GUERNSEY POST



CHAIRMAN'S STATEMENT

Over the last two years the Board has overseen a significant transformation plan, specifically designed to counter the negative financial impact of the loss of Low Value Consignment Relief (LVCR) and declining core mail volumes.

The financial consequence of these developments has been severe; revenue has declined by £19 million equating to a 37% reduction over a twelve month period. The actions devised by the Board to reduce the cost base and to concentrate our commercial activities on new profitable growth have been vital in our task of securing the future sustainability of the business. It is in the context of these challenges that I am delighted to report an improvement in our profit for the last financial year, the Company having made a profit before tax of £0.7m, which represents a £0.2m improvement on the previous year.

It is entirely appropriate to recognise the contribution of our employees towards the achievement of this excellent financial performance. Despite the fact that it has been an extremely uncertain period for the Company, our employees have risen to the challenge and displayed a resolute determination to achieve success, for which the Board is extremely grateful.

CAPITAL STRUCTURE

Over the last two years the Board has kept the matter of its capital under close scrutiny, specifically in the context of ensuring that the assets of the business are matched to future funding requirements. Following the £5m return of capital approved by the Board in June 2012 and executed in January 2013, the Board undertook a further review of its capital in June 2013. It concluded that the Company still has more capital than it requires and has decided to conduct a further re-purchase and cancellation of 3.5 million £1 shares, which will bring the total value of shares re-purchased to £8.5 million. This transaction is expected to take place later this year as the States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 decrees that such a return of capital to the States as our shareholder is conditional on express authorisation by resolution of the States of Deliberation.

PENSION

Through the pension sub-committee of the Board, the Company has been actively participating in the Pension Review Group's (PRG) consultation on the future structure of the public sector pension scheme (the "Scheme").

The Board of Guernsey Post wants to see change as the pension scheme liability is open-ended and costs are likely to rise significantly over time as longevity increases. Moreover, Guernsey Post has no control over this position as it is a passive member of the Scheme. The Board has previously stated that it regards the current employer's contribution rate of 15% as the maximum that can be sustained by its activities. Anything more is unaffordable, given the uncertain future of the postal market.

It is against this background that the Board is profoundly disappointed with the lack of progress made by the PRG in establishing the framework for change with public sector employees. Negotiations appear to have stalled, and there doesn't seem to be any clarity regarding their future course. The Board desires change, and the proposals made by the PRG (CARE, higher employee contributions, lower investment return assumptions, linkage of retirement age to State pension age) would certainly help Guernsey Post in ensuring a secure and sustainable service platform going forward.

The imperative for change has been made even starker by the funding valuation of Guernsey Post's pension scheme, commissioned by the Board at 31st March 2013. This indicates that under prudent assumptions the funding deficit in the Scheme exceeds £1m and the required future employer contribution rate will exceed 19%, which is wholly unsustainable. If Guernsey Post were to move to the recommended new public sector pension scheme, the future employer contribution rate would be closer to 10%. This neatly illustrates the scale of the problem and the urgency to address it.

REGULATION

There have been a number of changes to the regulatory model over the last year which in part is recognition of the significant market

pressures facing the business. The price control process has effectively been removed, and the annual licence fee has been halved to £90k.

Despite this positive development it is still the view of the Board that further changes are required. We believe that the scale of the reduced licence fee is disproportionate to the work carried out by CICRA and that the processes are effectively a duplication of scrutiny which already exists in the form of constructive pressure from customers, consumer bodies and our Shareholder. The Board will continue to make the case for change to Treasury & Resources and Commerce & Employment who are in the process of jointly reviewing the regulatory model.

> "Despite dealing with the challenging commercial realities and the need to make significant changes to our cost base, the Board has maintained a strong focus on the quality of our services."

STAKEHOLDERS

Despite dealing with the challenging commercial realities and the need to make significant changes to our cost base, the Board has maintained a strong focus on the quality of our services. In this regard our work with consumer groups Postwatch and the Alderney Postal Partnership Board has continued to be extremely valuable. Both groups have represented the full spectrum of consumer interests and have continued to provide us with constructive and valuable feedback

I am delighted to report that Guernsey Post has been awarded the highest Investor in People (IIP) accreditation, the Gold standard. As one of just a small number of local businesses to achieve IIP accreditation and the even smaller number who achieve the Gold standard, we are extremely proud of our achievement. The award is appropriate recognition of the hard work and dedication of our employees and their positive impact on our overall performance.

THE BOARD

There have been no personnel changes to the Board over the last twelve months and this stability has been an important factor in helping the business through such a challenging period. Our Finance Director Richard Hemans will be leaving the business in July, in pursuit of fresh career challenges and I would like to place on record our thanks for his competent and diligent contribution to the Board over the last five years.

The Board has a robust strategic plan in place which combined with a strong focus on corporate governance and risk management, means we can be confident of overcoming future challenges and securing sustainability for the business.

D R Jehan
Chairman
June 2013

CHIEF EXECUTIVE'S REPORT

Under any other circumstances a 37% reduction in revenue over a twelve month period would be the prelude to a business in crisis. For Guernsey Post that is anything but the case and our employees should feel immensely proud that their actions and commitment have resulted in an excellent financial performance over the year.

The loss of LVCR compounded by sustained core volume decline has required us to make significant savings, which we have largely achieved by improving our efficiency and reducing our headcount accordingly over the last two years.

As a result of the successful deployment of our £4m change programme all of the key measures are currently positive, costs are down, profitability has improved and quality of service remains high. The business is in good shape and is well prepared to face future challenges.

POSTAL BUSINESS

Consumers continue to move towards social media as their preferred method of communication, and businesses similarly are using the internet to transact with their customers. Traditional postal services in this respect are under real threat. Underlying mail volumes, excluding bulk mail, declined by 11% in 2012, a consistent trend which has seen a 40% reduction over the last five years. These trends will almost certainly continue at a similar rate over the coming years.

Conversely the technology that threatens the very core of the postal business is also an exciting opportunity. Internet shopping continues to grow at an exceptional rate and Guernsey Post continues to play a key role in the supply chain for Bailiwick customers. Parcel volumes increased by 13% last year, which is a combination of organic growth and new business. We have continued to work closely with our colleagues at Jersey Post in order to offer customers a much needed single delivery proposition across the Channel Islands.

Whilst the actual volumes of parcels are comparatively much less significant than the number of letters in the mails business, the scale of forecast growth is sufficient for us to be optimistic about the future. Online shopping is expected to account for 22% of retail spending in the UK by 2018, compared to 12.7% in 2012. We expect our parcel volumes to increase at a similar rate over this period.

Despite the loss of seven of the top ten bulk mailers over the last year, all of whom have relocated to other jurisdictions, customer retention has been an important and very successful aspect of our strategy. In spite of the loss of LVCR our performance means that we are still a key partner of the market leaders in the personalised greetings card industry. In many ways this industry and its reliance on postal services epitomises the very opportunities that exists for our business in the coming years as the technology revolution gathers pace.

Although International bulk mail volumes fell in 2012/13, their performance was more resilient than UK bulk mail and we expect strong growth over the coming year. We have improved our product portfolio, providing customers with a wide range of choice both in terms of price and service. New services into Europe are now well established and we are actively seeking to introduce further improvements over the coming year.

PHILATELIC

The Philatelic business has also performed extremely well in a challenging and competitive environment. Our high quality and innovative products have been well received by our customer base and the business unit exceeded expectations in terms of its overall profitability. In particular the launch of our first augmented reality stamp represented a significant milestone in the evolution of our product range, opening up sales opportunities to a new and diverse collector base.

> Online shopping continues to grow at an exceptional rate and Packet and Parcel deliveries are very much the future for our business.

FOREIGN EXCHANGE

Foreign Exchange sales have declined by 6% over the last year, a direct reflection of the challenging economic circumstances and falling visitor numbers to the Island. In the context of these challenges the overall performance of Batif has been positive, particularly in comparison with the UK market where revenue decline has been even more severe. Batif remains an important strategic asset for the business and continues to make a significant contribution to the overall profitability of the Company.

OUTLOOK

We have for many years enjoyed a mutually supportive and beneficial relationship with our principal trading and service partner, Royal Mail. That organisation is in the midst of major change and is likely to fall under new ownership within the near future. This represents a significant source of uncertainty for Guernsey Post, but we are monitoring developments closely and will strive to ensure that the partnership remains healthy and balanced for both parties.

The challenges facing the business over the next few years are no less severe than those we have experienced in recent times and it is also becoming increasingly difficult to mitigate the impact of declining revenues with further efficiencies, certainly on the scale of those already achieved. Our strategy therefore is very much focused on revenue growth opportunities, a number of which are outlined in this report. With that growth is also a requirement for the organisation to evolve and restructure in order for our products and services to remain current and meet changing customer preferences. I remain optimistic about the future for Guernsey Post.

B Smillie

Chief Executive

June 2013

FINANCE DIRECTOR'S STATEMENT

PROFIT AND LOSS ACCOUNT

I am delighted to report a healthy profit of £0.7m for the financial year ending 31 March 2013, which is an improvement of £0.2m on the prior year. Indeed, this is an outcome that we could not have predicted at the start of the year when we confronted the crippling loss of LVCR. However, our swift and comprehensive response to the withdrawal of LVCR has enabled us to surpass all expectations and we are therefore very proud of the result.

2012/13 has been one of the most difficult years in Guernsey Post's history. Not only has the Company faced the abolition of LVCR, which has caused a genuine collapse in bulk volumes destined for the UK and the rest of the world, but the recession and technological change have continued to undermine core volumes. UK, Local and International volumes all experienced double-digit declines.

Our profit after tax of £0.7m was achieved by responding to the loss of LVCR and accelerating core volumes declines with product development and cost reductions. The withdrawal of LVCR cost us over £3m in lost profits, but we enjoyed a 13% increase in packet volumes thanks to the continuing growth of online shopping and the development of new agency partnerships, and we lowered staff numbers by 12%.

Our operating performance did fall on an underlying basis, but this needs to be considered in the context of the reduction in profit of £3.3m from the withdrawal of LVCR and core volume declines. Removing the impact of FRS17 pension costs and exceptional restructuring costs, on a like-for-like basis we still made an operating surplus of over £1m, which compares with an operating surplus of £1.6m in 2011/12.

In 2012/13 our income decreased by nearly 37% to just under £32m. We suffered significant double digit falls in our UK and International bulk mail volumes, as nearly all of our bulk mail customers left the island following the UK government's decision to abolish LVCR. However, greetings card volumes continued to grow strongly and we acted decisively to retain our key customers who value our focus on cost and quality of service.

Our premium next-day time-guaranteed service was also affected as a result of the LVCR decision, with volumes falling by 10% as customers migrated to other jurisdictions. Our revenue from mail originating in the UK and the Rest of the World increased thanks to an ongoing change in the mail profile from letters to packets, with packet volumes growing by 13%. Core mail volume declines have steepened with UK, Local, International and Jersey all suffering double-digit decreases. Stamped, metered and PPI volumes all experienced double-digit declines as a result of the loss of LVCR, the recession, electronic substitution and the consolidation of operations for a number of companies away from Guernsey.

Expenditure decreased by just over 37% to £31.7m. Royal Mail charges and conveyance costs fell in line with lower bulk volumes, whilst staff expenditure dropped by £2.3m as we reorganised the business to meet falling activity levels. The number of full-time equivalent employees fell from 253 to 222. Excluding redundancy costs from 2011/12, the decline in payroll costs was £1.6m, which equates to a 'real' saving of nearly £2m. This is a significant reduction, but was necessary to ensure the business remained viable in the context of the new and ever–changing circumstances facing it.

We also succeeded in reducing non-staff overheads, which fell by over £0.3m thanks to the reimbursement by CICRA of nearly £0.15m of licence fees, from 2012/13 and prior years, which were recognised as excessive by the regulator in relation to the work they performed. We recognise that future licence fees have been lowered by CICRA, but expect them to decrease even further to ensure there is greater alignment between the cost of regulation and the value added by the process. Furthermore, we controlled tightly our other discretionary costs and achieved significant savings in most areas.

BALANCE SHEET

Our balance sheet remains strong although shareholders' funds decreased by £3.1m from £18.5m to £15.4m. The main driver for this reduction was the £5m return of capital to our shareholder Treasury & Resources in January 2013, which was offset by the strong profit and a slight improvement in the pension scheme deficit.

We have built strong relationships with our key customers and there is still further growth to come from the international bulk mail and greetings card markets.

At the end of 2012, the Board undertook a comprehensive review of the Company's cash position, future profitability and cash flows, major risks and funding requirements over the medium term. The Board concluded that the Company had surplus capital that it could not profitably deploy and that it would be more efficient to return it to the shareholder.

This review included a commitment to assess the Company's capital position at the end of every financial year, which the Board accordingly did again in June 2013. In the light of the successful response to the loss of LVCR and balanced against the major risks the Company still faces, the Board considered the medium-term financial performance and funding requirements of Guernsey Post, and approved a further return of £3.5m of surplus capital to Treasury & Resources. This will again be implemented through the structure of a share buy-back and is expected to take place in the final quarter of 2013, subject to the agreement of the States of Deliberation.

The Company still has significant financial flexibility and solid asset backing, with over £12m of cash and £12m of fixed assets, including a modern, high-specification building on the outskirts of St. Peter Port. This will enable us to address with confidence the realisation of any key risks and to take advantage of any opportunities that may present themselves.

The net pension liability under FRS17 fell by £0.5m from £9.8m to £9.3m. This was the result of strong investment returns offset slightly by the higher cost of benefit accrual. Whilst this improvement is positive, the deficit is still huge and the Board remains extremely concerned about the impact that the deficit has on the Company's profitability and long-term financial position.

Indeed, through the pension sub-committee of the Board, the Company has been actively participating in the Pension Review Group's (PRG) consultation on the future structure of the public sector pension scheme.

The Board of Guernsey Post wants to see change because the pension scheme liability is open-ended and costs are likely to rise significantly over time as life expectancy continues to improve. Moreover, Guernsey Post has no control over this position as a passive member of the Scheme. The Board has previously stated that it regards the current employer's contribution rate of 15% made by the Company as a maximum, and anything more is unaffordable given the Company's market and financial constraints.

It is against this background that the Board is profoundly disappointed with the progress made by the PRG in establishing the framework for change with public sector employees. Negotiations seem to have stalled, if ever there was a remit for them in the first place, and there is no clarity regarding their future course. The Board desires change, which would benefit not only Guernsey Post but also the Island, and the proposals made by the PRG (CARE, higher employee contributions, lower investment return assumptions, linkage of retirement age to State pension age) would certainly enable Guernsey Post to achieve most of its objectives to secure the future operational viability of this Company.

The imperative for change has been made even starker by the funding valuation of Guernsey Post's pension scheme commissioned by the Board at 31st March 2013. This indicates that under prudent assumptions the funding deficit in the Scheme exceeds £1m and the required future employer contribution rate would exceed 19%, which is unsustainable. Interestingly, if Guernsey Post were to move to the proposed new public sector pension scheme, the future employer contribution rate would be closer to 10%. This neatly illustrates the urgency and scale of the problem.

CASH FLOW STATEMENT

The Company consumed £3.8m of cash during the year, decreasing its cash reserves to £12.3m. This is mainly the result of the return of capital to Treasury & Resources mentioned above. Operating cash flow was very strong at just under £1m as the Company made significant profits before major non-cash items such as depreciation, amortisation and FRS17 adjustments. There was little capital expenditure incurred during the year and a small dividend paid of £0.1m.

OUTLOOK

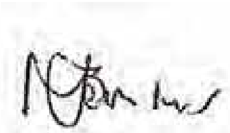
2013/14 will be the first year that we feel the full impact of the loss of LVCR because many bulk mailers remained well into 2012/13. Nonetheless, we are still expecting to make a modest operating profit before FRS17 in 2013/14 and to increase profits gradually over the next three years as we develop the business further and implement new cost reduction initiatives.

I remain positive and optimistic about the prospects for Guernsey Post. We have built strong relationships with our key customers and there is still further growth to come from the international bulk mail and greetings card markets. We are benefiting from robust growth in packet volumes as online retail grows and there are always opportunities to improve the effectiveness and efficiency of our operations. The loss of LVCR and the decline in core volumes, along with the unsustainable pension scheme deficit, are major challenges for the Company, but we can certainly overcome them and build a successful future.

R Hemans

Finance Director

June 2013



BOARD PROFILE

Dudley Jehan | Chairman

Born and educated in Guernsey, Dudley Jehan trained as a Meteorologist with the Air Ministry, working at Heathrow and Guernsey Airports before joining the British Antarctic Survey in 1960. During his four-year posting he was appointed Base Commander Halley and was awarded a Polar Medal by Her Majesty the Queen for outstanding contribution to science and discovery.

On returning to Guernsey he began a career in commerce, retiring in 2003 as Chief Executive of the Norman Piette Group of eight Channel Island trading companies serving the construction and home improvement sectors. He remains NP Group's Chairman today.

He was appointed the first Chairman of Guernsey Telecoms Limited, has held a number of non-executive directorships and has been a non-States Member for over 25 years. He is currently a member of the Housing Department.

Boley Smillie | Chief Executive

Born and raised in Guernsey, Boley Smillie joined Guernsey Post in 1991 straight from his secondary education at La Mare de Carteret School. The subsequent twenty two years have seen him gain a wide range of experience in different roles, rising through the ranks of the Company. Initially employed as a clerical assistant he moved to Customer Services, then on to Logistics before being promoted to Head of Letters and Parcels in 2004. He became Operations Director in 2007 and an Executive Director in April 2010. In July 2010 he was appointed interim Chief Executive before taking the role on a permanent basis in September 2010.

During this time he has added to his hands on experience by undertaking a number of professional qualifications, including certificates in marketing and business and finance. Most recently he was awarded the certificate in company direction from the Institute of Directors.

Richard Hemans | Finance Director

Richard Hemans studied English Literature and French at university before returning to Guernsey in 1996 to train as a chartered accountant with BDO Reads. He qualified in 1999 and after travelling for six months he joined Guernsey Telecoms as the Financial Accountant. Having worked on the commercialisation of Guernsey Telecoms, he then moved to the Jacksons Group as the Financial Controller before setting up as a freelance accountant working for a variety of clients in the retail, financial services and media industries.

He wrote a weekly business column for the Guernsey Press called 'The Mercury Column' and also set up a Channel Islands business brokerage to facilitate the sale and purchase of businesses in the islands, which he sold in 2008.

In 2006, he was appointed the Finance Director of one of his clients and remained there to oversee the growth of the company and the establishment of the finance function. He joined Guernsey Post in early 2008.

Andrew Duquemin | Non-Executive

Andrew Duquemin has a degree in Accounting and Finance and qualified as a Chartered Accountant in 1983. He has extensive experience in the listing of companies on both the London Stock Exchange and The Channel Islands Stock Exchange. He is also a director of Corporate Consultants Limited, a Guernsey based consultancy business that has provided corporate finance and management consultancy services since 1991.

He is Chairman of Elysium Fund Management Limited, a company providing fund management, administration and corporate finance services to a range of funds and trading companies. Elysium was formed in October 2006 to complete the management buyout of the business of Collins Stewart Fund Management Limited, a Guernsey registered company and wholly owned subsidiary of Collins Stewart Tullett plc, where Andrew was managing director.

Andrew sits on the boards of several local trading companies, a London-based investment bank and a London-listed hedge fund company. He is also a Fellow of the Chartered Institute for Securities & Investment and holds the advanced diploma in Corporate Finance.

BOARD PROFILE

Steve Hannon | Non-Executive

Steve Hannon has over 40 years experience in the postal industry. For the majority of that time he worked for Royal Mail where he managed several multi million pound, high profile national projects including the introduction of postal automation, a new rail, road and air network, rationalising and revamping London's mail centre infrastructure and planning the nationwide introduction of the single letter delivery.

He also spent a two-year period as a divisional General Manager responsible for a workforce of 13,000 people and an annual budget of £400m. During this time he covered the complete range of management functions embracing sales, customer services, finance, human resources, planning and operations.

Since leaving Royal Mail in 2003 he has undertaken consultancy work in the postal field and became a director of Postal and Logistics Consulting Worldwide. He was appointed Chief Executive of the Company in 2008.

Between July 2006 and February 2007 he undertook the role of Interim Chief Executive of Guernsey Post.

Simon Milsted | Non-Executive

On qualification as a Chartered Accountant in 1982 Simon Milsted joined the London City office of Price Waterhouse during which time he was engaged on a series of special assignments for the Bank of England. Two consecutive assignments took him to the West Country, following which he moved his young family westwards transferring permanently to Price Waterhouse's Bristol office.

In 1988, Simon co-founded an independent firm of Chartered Accountants that soon became one of the fastest growing and most well respected independent firm of advisers in the South West, bringing a high level of specialist and consulting advice to the owner-managed business community across the region.

In 1995, Simon invested in and became non executive chairman of the BSI Group, a business process outsource specialist in the business travel sector, which became the European leader in its field. Over more recent years, Simon has held office as Regional President of the Institute of Chartered Accountants in England and Wales, sat on a number of Government sponsored business support bodies and was a governor and non-executive treasurer of a leading South West public school.

Since his move to Guernsey in 2010, Simon has pursued an active engagement with businesses and not for profit organisations on the Island both in an advisory capacity and as principal.

Stuart Le Maitre | Non-Executive

Stuart Le Maitre was born and educated in Guernsey. Following a brief period of employment at the Guernsey Post Office he studied in Bristol and obtained a degree in Education and a post graduate qualification in Careers Guidance. He held a senior position in the Careers Service at Buckinghamshire County Council for five years before returning to join the Civil Service in Guernsey, and held senior positions for the next 20 years.

During this time, his responsibilities included the development and oversight of departments responsible for industrial relations and employment legislation, trading standards and consumer affairs, health and safety in the work place and initiatives to support the development of the non-finance sector of the Island's economy. Having worked on the development of the regulatory

framework for the Bailiwick of Guernsey and the establishment of the Office of Utility Regulation, he was also involved in the commercialisation of the States' Trading Utilities.

On leaving the Civil Service, Stuart undertook a variety of Consultancy assignments and in 2006 was appointed as Chief Operating Officer with responsibility for the set up phase of new local mobile telephone company. More recently he held the position of Chief Executive of the Medical Specialist Group in Guernsey until he resigned from this post in June this year. He has recently taken up the position of Managing Director of the Guernsey Enterprise Agency and also holds other local board positions.

CORPORATE GOVERNANCE REPORT

GUERNSEY POST

COMPLIANCE

The Combined Code on Corporate Governance 2006 (the Code) outlines the main principles and provisions that companies should adopt in relation to corporate governance. This report describes Guernsey Post's compliance with the Code. Guernsey Post is committed to the development of a sustainable and profitable business that benefits all stakeholders, which includes achieving the highest standards of corporate governance for our Shareholder, the States of Guernsey.

Guernsey Post has signed a Memorandum of Understanding with Treasury & Resources that sets out the rights, expectations and duties of both parties and includes the requirement to comply with best practice on corporate governance. Guernsey Post has continued to work hard on its corporate governance programme during the financial year ending 31 March 2013, and the achievements are summarised in this report.

THE BOARD

DIRECTORS

The Board's role is to provide entrepreneurial leadership of the Company within a prudent and effective framework of risk management and internal control. The Board is responsible for setting and implementing strategy, allocating the necessary human and financial resources to meet the Company's objectives and monitoring the performance of management against those objectives. The Board is collectively accountable for the success of the Company, sets its values and standards and takes decisions objectively in the interests of the Company, its shareholders and other stakeholders.

Non-executive directors help to develop and challenge the Company's strategy. They evaluate the performance of management and monitor the reporting of performance. They consider the integrity of financial information and the strength of financial controls and risk management systems. They oversee executive remuneration and play the main role in the appointment, removal and succession planning for executive directors.

Matters referred to the Board are governed by a scheme of delegated authorities that provides the framework for the decisions to be taken by the Board, those which must be referred back to our Shareholder and those which can be delegated to Committees of the Board or senior management.

There were six board meetings held during 2012/13. If a Board member cannot attend a meeting, he or she receives a copy of the agenda and the accompanying papers in advance of the meeting and is invited to comment on the matters to be discussed.

The names of the members of the Board Committees are set out on pages 18 and 19, together with details of their background. The Board Committees have authority to make decisions according to their terms of reference.

CHAIRMAN AND CHIEF EXECUTIVE

Guernsey Post has a non-executive Chairman and a Chief Executive. There is a clear division of responsibility between the two positions, with the Chairman responsible for the running of the Board and the Chief Executive responsible for the running of the Company's business.

Dudley Jehan spends, on average, 1 day per week in his role as Chairman. He is also Chairman of the Norman Piette Group. The Board considers that his external directorships do not make conflicting demands on his time as Chairman.

Andrew Duquemin is the senior independent director and is available to talk to our Shareholder if it has any issues or concerns.

BOARD BALANCE AND INDEPENDENCE

Throughout the year the Company has had a balance of independent non-executive directors on the Board who ensure that no one person has disproportionate influence. All the non-executive directors bring with them significant commercial experience from different industries, which ensures that there is an appropriate balance of skills on the Board.

There are currently five non-executive directors and two executive directors on the Board, which is under review with the objective of increasing the number of executive directors.

APPOINTMENTS TO THE BOARD

Recommendations for appointments to the Board are the responsibility of the Nominations Committee, which has recently revised the procedures and criteria it follows for the selection of new board members. The appointment of non-executive directors has to be ratified by the States of Deliberation.

The Nominations Committee meets quarterly to consider the balance of the Board, job descriptions and objective criteria for board appointments and succession planning.

INFORMATION AND PROFESSIONAL DEVELOPMENT

For each scheduled board meeting the Chairman and the Company Secretary ensure that, during the week before the meeting, the directors receive a copy of the agenda for the meeting, company financial, strategic and operating information and information on any other matter which is to be referred to the Board for consideration. The directors also have access to the Company Secretary for any further information they require. In the months where there is no scheduled board meeting, the directors receive the prior month and cumulative company financial and operating information.

All newly appointed directors participate in an extensive internal induction programme that introduces the director to the Company and includes visits to key stakeholders. The Company Secretary gives guidance on board procedures and corporate governance.

The Company Secretary, who is appointed by the Board and is also the Finance Director and an Executive Director, is responsible for ensuring compliance with board procedures. This includes recording any concerns relating to the running of the Company or proposed actions arising there from that are expressed by a director in a board meeting. The Company Secretary is also secretary to the Remuneration and Nomination Committees. The Company Secretary is available to give ongoing advice to all directors on board procedures, corporate governance and regulatory compliance.

CORPORATE GOVERNANCE REPORT (continued)

ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

Attendance during the year for all board and board committee meetings is given in the table below:

ATTENDANCE AT BOARD COMMITTEE MEETINGS (A)		
	Board	Audit Committee
Dudley Jehan	6/6	
Boley Smillie	6/6	
Richard Hemans	6/6	1/1
Steve Hannon	6/6	
Andrew Duquemin	5/6	1/1
Simon Milsted	6/6	1/1
Stuart Le Maitre	6/6	

	Nominations Committee	Remuneration Committee
Dudley Jehan		
Boley Smillie		
Richard Hemans		
Steve Hannon	3/3	3/3
Andrew Duquemin		
Simon Milsted		
Stuart Le Maitre	3/3	3/3

(A) The first figure represents attendance and the second figure the possible number of meetings e.g. 5/6 represents attendance at 5 out of a possible 6 meetings. Where a director stepped down from the Board or a Board Committee during the year, or was appointed during the year, only meetings before stepping down or after the date of appointment are shown.

PERFORMANCE EVALUATION

The Board undergoes an annual evaluation of its performance. In July 2012, the Board undertook a review of its effectiveness. The results were positive and higher than the last evaluation in 2011, indicating the Board is satisfied with its performance. Some minor areas for improvement were identified, which the Board is currently implementing. The evaluation consists of a confidential questionnaire, which is independently assessed, and a report that is then submitted to the Board, followed by an open discussion facilitated by the Chairman.

ELECTION AND RE-ELECTION OF DIRECTORS

Guernsey Post Limited's articles state that a non-executive director should be proposed for re-election if he or she has been appointed to the Board since the date of the last AGM, or proposed for re-election if he or she has held office more than three years at the date of the notice convening the next AGM. The Board ensures that each non-executive director submits himself or herself for re-election by shareholders at least every three years.

Non-executive directors serve the Company under letters of appointment, which are generally for an initial three year term. Their appointment is also ratified by the States of Deliberation.

At the 2013 AGM, Andrew Duquemin is being recommended by the Board and will be proposed for re-election.

REMUNERATION

The Board recognises the importance of executive directors' remuneration in recruiting, retaining and motivating the individuals concerned. Executive directors' remuneration consists of basic salary, benefits in kind, bonus and retirement benefits. Fees for the Chairman and non-executive directors are determined by Treasury & Resources.

The Remuneration Committee, which is chaired by Stuart Le Maitre, consists of two non-executive directors and determines remuneration levels and specific packages appropriate for each executive director, taking into account the Group's annual salary negotiations. No director is permitted to be present when his own remuneration is being discussed, or to vote on his own remuneration. The Remuneration Committee considers that the procedures in place provide a level of remuneration for the directors which is both appropriate for the individuals concerned and in the best interests of shareholders.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The intention of the Annual Report is to provide a clear assessment of the performance and prospects of Guernsey Post Limited. The Company has a comprehensive system for reporting financial results to the Board. An annual budget is prepared and presented to the Board for approval. During the year, monthly management accounts, including balance sheet, cash flow and capital expenditure reporting, are prepared with a comparison against budget and prior year. Forecasts are revised quarterly in the light of this comparison and are also reviewed by the Board.

INTERNAL CONTROL AND RISK MANAGEMENT

All directors are responsible for establishing and maintaining an effective system of internal control. Whilst all elements of risk cannot be eliminated, the system aims to identify, assess, prioritise and where possible, mitigate the Company's risks. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide the Board with reasonable assurance that assets are safeguarded, transactions are properly authorised and recorded and that material errors and irregularities are either prevented or detected within a timely period.

In 2012 the Audit Committee considered the need for an internal audit function and concluded that the financial position, size and complexity of the Company could not justify the expense, which the Board ratified. The Board is happy to continue relying on the strength of the internal control environment through updates on risk management and internal control, health and safety reports, AML and CFT compliance, monthly management information and representations from the Executive Team.

AUDIT COMMITTEE AND AUDITOR

The Board has delegated responsibility to the Audit Committee for reviewing an effective system of internal control and compliance, accurate external financial reporting, fulfilling its obligations under the law and the Code, and managing the Company's relationship with the Company's external auditor. The Committee members comprise independent non-executive directors. Andrew Duquemin, who is a qualified accountant, was appointed as the chairman of the Audit Committee and the Board is satisfied that Andrew has recent and relevant financial experience to enable the duties of the Committee to be fully discharged. Simon Milsted is the other member of the Audit Committee. Simon is a qualified accountant with wide experience of owning and managing trading companies.

CORPORATE GOVERNANCE REPORT

The Audit Committee considered the need for an internal audit function and concluded that given the cost of resourcing the function, the assurances received through other means and the size and complexity of the Company, it was not necessary.

The Audit Committee went out to tender for the Company's external auditors during the year. Following a rigorous process that yielded three credible tenders, the Audit Committee recommended the re-appointment of KPMG on a rolling one-year basis, which was ratified by the Board and the Shareholder.

The Committee meets once a year with representatives of the Company's external auditor, and the Chief Executive and the Finance Director also attend the meetings.

SHAREHOLDER RELATIONS

The Board believes that good communication with the Shareholder is a priority. There are regular meetings between the Chief Executive and the Finance Director of Guernsey Post, and the Chief Officer and Chief Accountant of Treasury & Resources. The Company presents its strategic plan to our Shareholder for approval every year.

The Chairman and senior independent director are available to meet with our Shareholder should there be unresolved matters that our Shareholder believes should be brought to its attention. The Executive Team and the non-executive directors meet with our Shareholder at the AGM.

The date of the AGM is agreed with our Shareholder and ten days' working notice is given. The AGM is chaired by Guernsey Post, with presentations made by the Executive Team to facilitate awareness of the Company's activities and its financial performance. Our Shareholder is given the opportunity to ask questions of the Board and the Chairman of each board committee during the AGM.

COMMITTEES OF THE BOARD AND MAIN TERMS OF REFERENCE

In addition to regular scheduled board meetings, the Company operates through various board committees, of which the membership and main terms of reference are set out below (except the Audit Committee which is outlined above).

Stuart Le Maitre is the Chairman of the Nominations Committee, supported by Steve Hannon. The main terms of reference of this Committee are to review regularly the structure, size and composition of the Board and to make recommendations on the role and nomination of directors for appointment to the Board, Board Committees and as holders of any executive office. The Committee met three times in 2012/13 and all members of the Committee were present.

Stuart Le Maitre is also the Chairman of the Remuneration Committee, supported by Steve Hannon. The main terms of reference of this Committee are to determine and agree with the Board the remuneration policy for the Company's Executive Team, to approve the design of, and determine targets for, any performance related pay schemes operated by the Company and to determine the policy for, and scope of, pension arrangements for each executive director. The Committee met three times in 2012/13 and all members of the Committee were present.

Andrew Duquemin is the Chairman of the Pensions Committee, supported by Simon Milsted, the Chief Executive and the Finance Director. The main terms of reference of this Committee are to review and make recommendations to the Board on the Company's retirement and post-retirement benefit arrangements including the control and funding of such arrangements. Given the importance and scale of the pension issues facing the Company, the full Board considered regularly the pension scheme arrangements at its meetings, and the Pension Committee advised the Board on the development of strategic options to reorganise the pension scheme given the likely increase in its cost, and the uncertainty it creates for the Company.

The Committee also participated fully in the Pension Review Group's consultation on the future of the States of Guernsey's public sector pension scheme. The Committee is broadly satisfied with the Group's recommendations because they will help the Company to achieve most of its objectives, but it is very disappointed that no further progress has been made on implementing these recommendations given the urgency and significance of the problem.

DIRECTOR'S REPORT

The directors present their annual report together with the financial statements for the year ended 31 March 2013.

PRINCIPAL ACTIVITIES

The Company's principal activity is the provision of a postal service for the Bailiwick of Guernsey through a postal network and retail counter operation in accordance with the licence awarded to it by the Director General of Utility Regulation. The Company also markets its postage stamps and other philatelic products to stamp collectors worldwide.

SIGNIFICANT EVENTS

The UK Government's withdrawal on 1 April 2012 of LVCR from goods sent to the UK from the Channel Islands has had the negative impact on the Company's financial performance predicted this time last year. It has reduced income by over £18m and profits by more than £3m. The Board took swift and comprehensive action to mitigate the loss of LVCR, however, which has resulted in strong profits of £0.7m in 2012/13.

Following a comprehensive review of the Company's cash position, future profitability and cash flows, major risks and funding requirements over the medium term, the Board concluded that the Company had surplus capital that it could not profitably deploy and that it would be more efficient to return it to the Shareholder. Accordingly, the Company returned £5m to Treasury & Resources in January 2013 by way of a share buy-back.

The Board conducted another rigorous review of the Company's capital position in June 2013, and in the light of the successful response to the loss of LVCR, the key risks facing the Company and the expected future financial performance, approved the return of a further £3.5m to the Shareholder by means of a further share buy-back. This is expected to take place in the final quarter of 2013 and is subject to the agreement of the States of Guernsey.

RESULTS

The results for the year are shown in the profit and loss account on page 24*.

DIVIDEND

The directors recommend a dividend of 0.008p per ordinary share for the financial year (2012: 0.004p per ordinary share).

FIXED ASSETS

Fixed asset movements for the year are disclosed in note 7 to the financial statements.

DIRECTORS

The directors of the Company, who served throughout the year and at the date of this report, were as follows:

D R Jehan

B Smillie

R J Hemans

S Hannon

A Duquemin

S Le Maitre

S Milsted

No director has an interest either beneficially or non beneficially in any shares of the Company (2012: no interest beneficially or non beneficially).

In accordance with the Articles of Association A Duquemin is due to retire by rotation and being eligible offers himself for re election at the forthcoming AGM.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008 and the Post Office (Guernsey) Law 1969. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

KPMG Channel Islands Limited has expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

B Smillie	D R Jehan
Chief Executive	Chairman

These page numbers refer to the original Financial Statements document approved by the auditors.

INDEPENDENT AUDITOR'S REPORT

20 New Street, St. Peter Port, Guernsey, GY1 4AN

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUERNSEY POST LIMITED

We have audited the financial statements of Guernsey Post Limited (the "Company") for the year ended 31 March 2013 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008 and section 10(1) of the Post Office (Guernsey) Law, 1969. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities set out on page 21*, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its profit for the year then ended;
- are in accordance with United Kingdom Accounting Standards and
- comply with the Companies (Guernsey) Law, 2008.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited

Chartered Accountants

These page numbers refer to the original Financial Statements document approved by the auditors.

GUERNSEY POST

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 2013

	Notes	31 March 2013 £'000	31 March 2012 £'000
Income		**31,978**	50,548
Expenditure		**(31,710)**	(50.517)
Operating profit	2	**268**	31
Other income			
Interest receivable	3	**416**	396
Rents receivable		**62**	65
Profit on ordinary activities before net loss on pension scheme		**746**	492
Net loss on pension scheme		**(190)**	(135)
Profit on ordinary activities before taxation		**556**	357
Taxation credit	4	**129**	134
Profit for the financial year		**685**	491

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 March 2013

	Notes	31 March 2013 £'000	31 March 2012 £'000
Profit for the financial year		**685**	491
Actuarial gain/(loss) recognised in the pension scheme	17	**1,600**	(3,582)
Dividend paid	5	**(89)**	-
(Decrease)/increase in deferred tax asset on actuarial gains and losses	12	**(320)**	716
Total recognised gains and losses relating to the year		**1,876**	(2,375)

All activities derive from continuing operations

The notes on pages 19 to 31 (*27 to 46) form an integral part of these financial statements.

**These page numbers refer to the original Financial Statements document approved by the auditors.*

FINANCIAL STATEMENTS

BALANCE SHEET

As at 31 March 2013

	Notes	**31 March 2013 £'000**	31 March 2012 £'000
Fixed assets			
Intangible assets	6	**269**	323
Tangible assets	7	**11,253**	11,768
Investment properties	8	**900**	900
Investment in subsidiaries	9	**-**	-
		12,422	12,991
Current assets			
Stock		**156**	220
Debtors	10	**2,450**	5,996
Cash at bank and in hand	16	**12,336**	16,171
		14,942	22,387
Creditors: Amounts falling due within one year	11	**(2,842)**	(7,169)
Net current assets		**12,100**	15,218
Total assets less current liabilities		**24,522**	28,209
Provisions for liabilities and charges	12	**146**	101
Net assets excluding pension liability		**24,668**	28,310
Net pension liability	17	**(9,262)**	(9,780)
Net assets including pension liability		**15,406**	18,530
Capital and reserves			
Share Capital	13	**17,386**	22,386
Profit and loss account	14	**(1,965)**	(3,841)
Revaluation reserve	14	**(15)**	(15)
Shareholders' funds	15	**15,406**	18,530

The financial statements were approved by the Board of Directors and authorised for issue on 24th June 2013.
They were signed on its behalf by:

B Smillie
Chief Executive

DR Jehan
Chairman

The notes on pages 19 to 31 (*27 to 46) form an integral part of these financial statements.

**These page numbers refer to the original Financial Statements document approved by the auditors.*

CASH FLOW STATEMENT

For the year ended 31 March 2013

	Notes		31 March 2013 £'000		31 March 2012 £'000
Net cash inflow from operating activities	16		**992**		1,378
Returns on investments and servicing of finance					
Interest received		**382**		396	
Rent received		**62**		65	
Net cash inflow from returns on investments and servicing of finance			**444**		461
Taxation			**108**		(34)
Capital Expenditure					
Purchase of fixed assets		**(295)**		(197)	
Sale of fixed assets		**5**		-	
Net cash outflow from capital expenditur			**(290)**		(197)
Repurchase of share capital	13		**(5,000)**		-
Dividend paid	5		**(89)**		**-**
(Decrease)/increase in cash	16		**(3,835)**		1,608

The notes on pages 19 to 31 (*27 to 46) form an integral part of these financial statements.

**These page numbers refer to the original Financial Statements document approved by the auditors.*

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (year ended 31 March 2013)

1. STATEMENT OF ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements give a true and fair view, have been prepared in accordance with applicable United Kingdom Accounting Standards and are in compliance with the Companies (Guernsey) Law, 2008.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of freehold investment properties.

Income

Sales of stamps and the crediting of franking machines are accounted for on a receipt of funds basis. All other income is accounted for on an accruals basis.

Expenses

Postal operations expenses are charged as incurred. No provision is made for any charges which may be incurred in handling or delivering mail in respect of stamps and franking machine credits sold but unused at the balance sheet date.

Deferred Taxation

Provision for deferred taxation is made in full on timing differences which result in an obligation at the balance sheet date to pay tax at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. The pension scheme deficit shown in the balance sheet is net of the deferred tax asset.

Pension costs

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. Such variations are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated remaining working life of the scheme members. The scheme is funded with assets of the scheme held separately from those of the Company.

The employees' pension scheme is a defined benefit scheme. The Company applies Financial Reporting Standard 17, "Retirement Benefits" ("FRS 17"). In accordance with FRS 17 current service costs and any post service costs are charged to the profit and loss account, together with the finance costs and income for the scheme. Actuarial gains and losses are recognised in full in the statement of total recognised gains and losses for the period in which they occur. Pension scheme assets are measured using market values for quoted securities, the current bid price is taken as market value. Pension scheme liabilities are measured using the projected unit credit method, with an actuarial valuation being carried out each year at the balance sheet date. The retirement benefit deficit in the scheme, net of the related deferred tax asset, is recognised as net pension liability in the balance sheet.

Dividends

Dividends are accounted for when they are paid.

Stock

The cost of definitive stamps, including the non-value indicator self-stick range, is written off over the expected sales life of each type of stamp, which is unlikely to exceed three years. Commemorative stamp costs are fully written off in the year of issue.

Other stocks are valued at the lower of cost and net realisable value.

Intangible assets - goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. An impairment review is carried out every year and any necessary provision made.

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful economic life. A full year's depreciation is charged in the year of acquisition.

	Estimated life in years	Depreciation % per annum
Freehold land	N/A	Nil
Freehold buildings	30 - 50	2 -3.3
Plant and equipment	15	6.67
Leasehold improvements	8	12.5
Furniture and fittings, office equipment and postal machinery	3 - 13	7.7 - 33.3
Transport	5	20

Investment Properties

A full external valuation is obtained at least every five years with an interim external valuation in year 3. Interim valuations in years 1, 2 and 4 may be carried out if the directors consider it is likely that there has been a material change in value. Revaluation surpluses or deficits on individual properties are transferred to the revaluation reserve. Depreciation is not provided in respect of freehold investment properties.

Investment in subsidiaries

The investment in subsidiaries is stated at cost. The subsidiaries have not been consolidated on the basis that they are dormant, and non-consolidation does not have a material impact on these financial statements.

Foreign currency

Foreign currency held in German and Dutch bank accounts is translated at the exchange rate prevailing at the balance sheet date. Gains or losses are taken to the Profit and Loss account at the time of translation. All foreign trading transactions are translated into sterling using the prevailing rate on the date of the transaction.

GUERNSEY POST

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

2. Operating profit

Operating profit is stated after charging:

	31 March 2013 £'000	31 March 2012 £'000
Staff costs	**10,151**	11,458
Auditors' remuneration		
Audit Fees	**30**	30
Other services	**-**	10
Amortisation of goodwill	**54**	54
Directors' remuneration	**385**	388
Restructuring costs	**-**	848
(Profit)/loss on disposal of fixed assets	**(4)**	2
Depreciation of tangible fixed assets	**809**	812

The restructuring costs relate to the voluntary redundancy programme and the ongoing reorganisation of the sorting office resulting from the abolition of LVCR and the general decline in mail volumes.

Average full time equivalent employee numbers for the period were as follows:

	31 March 2013	31 March 2012
Operational staff including postmen and women, post office counter staff and philatelic production staff	**177**	194
All other staff	**45**	59
Total	**222**	253

3. Interest receivable

	31 March 2013 £'000	31 March 2012 £'000
States Treasury	**414**	394
Other	**2**	2
	416	396

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS **(continued)** (year ended 31 March 2013)

4. Taxation

	Notes	**31 March 2013 £'000**	31 March 2012 £'000
Current year tax		**122**	82
Prior year tax		**(17)**	(15)
Deferred tax credit for the year	12	**(234)**	(201)
		(129)	(134)

Guernsey Post Limited as a Guernsey Utility Company regulated by the Channel Islands Competition and Regulatory Authority (formerly Office of Utility Regulation) is subject to the standard rate of income tax of 20% on its regulated income and 0% on its non regulated income. The basis of assessment to Guernsey tax continues to be on actual current year basis.

The actual tax credit differs from the expected tax charge computed by applying the standard rate of Guernsey income tax of 20% as follows:

	31 March 2013 £'000	31 March 2012 £'000
Profit on ordinary activities before taxation	**556**	357
Tax at 20%	**111**	71
Effects of adjusting items:		
Timing differences	**44**	30
Sundry adjustment to prior years' tax	**(17)**	(15)
Disallowed expenses	**14**	14
Rate differences on current tax	**(237)**	(203)
Adjustment for pension costs	**190**	170
Current tax charge	**105**	67
Deferred tax - pension deficit	**(190)**	(170)
Deferred tax - timing differences	**(44)**	(31)
Profit and loss taxation credit	**(129)**	(134)

5. Dividends on equity shares

Amounts recognised as distribution to equity holders in the period.

	31 March 2013 £'000	31 March 2012 £'000
Final dividend for the year ended 31 March 2012 of 0.004p (31 March 2011 £nil)	**89**	-

The board is proposing a final dividend of 0.008p per ordinary share for the year ended 31 March 2013.

GUERNSEY POST

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

6. Intangible assets - Goodwill

	£'000
Cost	
At 1 April 2012 & 31 March 2013	543
Amortisation	
At 1 April 2012	220
Charge for the year	54
At 31 March 2013	274
Net book value	
At 31 March 2012	323
At 31 March 2013	**269**

On 1 April 2008 the Company acquired 100% of the issued share capital of BATIF Bureau de Change Ltd, for a cash consideration of £525,611 and a deferred cash consideration of £200,000. The fair value of the net assets acquired amounted to £162,431, giving rise to goodwill of £563,180. Upon acquisition, the trade and net assets of BATIF Bureau de Change Limited were transferred to Guernsey Post Limited and BATIF Bureau de Change Limited changed to a dormant company.

The sale and purchase agreement specified that the deferred cash consideration was payable in two equal instalments of £100,000 on 31 July 2009 and 31 July 2010. Payment was subject to meeting pre-determined adjusted profit targets in respect of the financial years ending 31 March 2009 and 31 March 2010. On 29 June 2009 the board approved the payment of the first instalment of £100,000 and agreed to provide in full for the second instalment of £100,000. On 27 September 2010 the Board approved both the payment of £80,000 in respect of the second instalment and the write back of £20,000 against goodwill and deferred consideration.

The carrying value of the goodwill has been reviewed during the year and the directors have determined that no impairment has taken place.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

7. Tangible fixed assets

	1 April 2012 £'000	Additions £'000	Written off / disposals / transfers £'000	**31 March 2013 £'000**
Cost				
Freehold land	2,505	-	-	**2,505**
Freehold buildings	8,598	7	-	**8,605**
Plant and equipment	2,662	-	-	**2,662**
Leasehold improvements	394	-	-	**394**
Furniture and fittings	289	21	(9)	**301**
Office equipment	1,570	95	(432)	**1,233**
Postal machinery	2,420	6	(23)	**2,403**
Transport	990	166	(38)	**1,118**
	19,428	295	(502)	**19,221**

	1 April 2012 £'000	Charge for the year £'000	Written off / disposals / transfers £'000	**31 March 2013 £'000**
Depreciation				
Freehold land	-	-	-	**-**
Freehold buildings	1,597	176	-	**1,773**
Plant and equipment	1,513	256	-	**1,769**
Leasehold improvements	188	50	-	**238**
Furniture and fittings	148	25	(9)	**165**
Office equipment	1,331	93	(431)	**993**
Postal machinery	2,068	93	(23)	**2,138**
Transport	815	116	(38)	**893**
	7,660	809	(501)	**7,969**
Net book value	11,768	-	-	**11,253**

Freehold land with a value of £2,505,000 (2012: £2,505,000) is not depreciated.

GUERNSEY POST

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

8. Investment properties

	Market Value 31 March 2013 £'000	Market Value 31 March 2012 £'000
At 1 April 2012 & 31 March 2013	**900**	900

Investment properties, which are all freehold, were valued on an open market existing use basis at 6 March 2013 by Watts & Co Limited. Such properties are not depreciated.

9. Investment in subsidiaries

	31 March 2013 £'000	31 March 2012 £'000
Independent Delivery Solutions Limited	-	-
BATIF Bureau de Change Limited	-	-
	-	-

Guernsey Post Limited owns all the share capital, consisting of two fully paid up £1 shares (2012: two fully paid up £1 shares) in Independent Delivery Solutions Limited. This is a dormant company and has never traded. Guernsey Post Limited pays the administration costs for this company.

On 1 April 2008 the Company acquired 100% of the issued share capital of BATIF Bureau de Change Limited, which consists of 100 fully paid up £1 shares. Upon acquisition, the trade and net assets of BATIF Bureau de Change Limited were transferred to Guernsey Post Limited and BATIF Bureau de Change Limited changed to a dormant company. Guernsey Post Limited pays the admininstration costs for this company.

10. Debtors

	31 March 2013 £'000	31 March 2012 £'000
Trade debtors	**2,030**	5,650
Less: Provision for bad debt	**(49)**	(45)
Other debtors	**169**	27
Prepayment and accrued income	**266**	224
Interest receivable	**34**	-
Taxation recoverable	**-**	140
	2,450	5,996

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

11. Creditors

	31 March 2013 £'000	31 March 2012 £'000
Amounts falling due within one year		
Trade creditors	**1,451**	5,026
Other creditors	**981**	1,760
Accruals and deferred income	**337**	383
Taxation payable	**73**	-
	2,842	7,169

12. Provision for liabilities and charges

	Deferred taxation - Accelerated Capital Allowances £'000	Deffered taxation - Pension Deficit/surplus £'000	Total £'000
At 1 April 2012	(101)	(2,445)	(**2,546**)
Charged to statement of total recognised gains and losses	-	320	**320**
Credit to profit and loss account	(45)	(190)	**(235)**
At 31 March 2013	(146)	(2,315)	**(2,461)**

Deferred tax in the financial statements is measured at the actual tax rates that are expected to apply to the income in the periods in which the timing differences are expected to reverse. As a Guernsey Utility Company regulated by the Office of Utility Regulation, Guernsey Post Limited is subject to tax at 20% on its regulated income and 0% on its non-regulated income.

The provision for liabilities and charges in the balance sheet excludes the deferred tax asset of £2.315m relating to the pension scheme deficit. The pension scheme deficit in the balance sheet is shown net of this deferred tax asset.

13. Share capital

	31 March 2013 £'000	31 March 2012 £'000
Authorised		
40,000 ordinary shares of £1 each	**40,000**	40,000
Allotted, called-up and fully-paid		
17,386,000 ordinary shares of £1 each	**22,386**	22,386
Opening share capital at 1 April 2012		
Repurchase of share capital	**(5,000)**	**-**
As at 31 March 2013	**17,386**	22,386

100% of the shares of the Company are owned beneficially by the States of Guernsey.

On 28 January 2013, the Board approved the re-purchase and subsequent cancellation of £5m of its share capital as a means of returning surplus cash to its Shareholder. The States Trading Companies (Bailiwick of Guernsey) Ordinance, 2001 decreed that it was conditional on express authorisation by resolution of the States of Deliberation, which was obtained on 13 December 2012.

On 4 June 2013, after the year end, the Board approved the further re-purchase and subsequent cancellation of £3.5m of its share capital. This share buy-back is subject to the approval of the States of Deliberation.

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

14. Reserves

	31 March 2013 £'000	31 March 2012 £'000
Profit and loss account		
Opening reserves at 1 April 2012	**(3,841)**	(1,466)
Retained profit for the year	**685**	491
Actuarial profit/(loss) for the year, net of movement in deferred tax	**1,280**	(2,866)
Dividend paid	**(89)**	-
As at 31 March 2013	**(1,965)**	(3,841)

Revaluation reserve	**31 March 2013 £'000**	31 March 2012 £'000
Reserves at 1 April 2012 & 31 March 2013	**(15)**	(15)

15. Reconciliation of movement in shareholders' funds

	31 March 2013 £'000	31 March 2012 £'000
Profit for the financial year	**685**	491
Actuarial gain/(loss) recognised in the pension scheme	**1,600**	(3,582)
(Decrease)/increase in deferred tax asset on actuarial gains and losses	**(320)**	716
Repurchase of share capital	**(5,000)**	-
Dividend paid on equity shares	**(89)**	-
Net reduction in shareholders' funds	**(3,124)**	(2,375)
Opening shareholders' funds	**18,530**	20,905
Closing shareholders' funds	**15,406**	18,530

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

16. Reconciliation of operating profit to net cash inflow from operating activities

	31 March 2013 £'000	31 March 2012 £'000
Operating profit	**268**	31
Depreciation charges	**809**	812
Amortisation	**54**	54
Net pension scheme service costs	**761**	714
Decrease/(increase) in stock	**64**	(1)
Decrease in debtors	**3,440**	367
(Profit)/loss on disposal of fixed assets	**(4)**	2
Decrease in creditors	**(4,400)**	(601)
Net cash inflow from operating activities	**992**	1,378

Reconciliation of net cash inflow to movement in net funds

	31 March 2013 £'000	31 March 2012 £'000
(Decrease)/increase in cash balances	**(3,835)**	1,608
Net funds at 1 April 2012	**16,171**	14,563
Net funds at 31 March 2013	**12,336**	16,171

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

17. Pension Fund

Employees of the Company, where they are eligible and have chosen to join, are members of the States of Guernsey Superannuation Scheme. This is a defined benefits pension scheme funded by contributions from both employer and employees at rates which are determined periodically on the basis of actuarial advice, and which are calculated to spread the expected costs of benefits payable to employees over the period of these employees' expected service lives. The assets of the scheme are held by the States of Guernsey and the ultimate liability to pay out any pension when it is realised lies also with the States should the Company be unable to meet its funding commitments.

The scheme has established differing terms for those who joined before 1st January 2008 and those who joined after. For pre-2008 members of the scheme the employee is entitled to a retirement benefit of 1/80th of final salary for each year of membership of the scheme up to a maximum of 45 years on reaching 65 years of age. Additionally a lump-sum payment is paid based on 3/80th of final salary for each year of employment. For members who joined after 1 January 2008 the benefit entitlement accrues at 1/60th of final salary but no lump sum automatically accrues. A lump sum is achievable by commuting part of the pension entitlement. The take up of this commutation into lump sum cannot be known but an assumption based on a prudent forecast has been adopted. This assumes that a 75% commutation will be requested by members. The scheme is a funded scheme. The most recent actuarial update of scheme assets and the present value of the defined benefit obligation was carried out at 31 March 2013 by Mrs D Simon, Fellow of the Institute of Actuaries.

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

The amounts recognised in the Balance Sheet are as follows

	31 March 2013	31 March 2012
	£'000	£'000
Fair value of Fund Assets	**33,395**	29,882
Present value of funded obligations	**(44,972)**	(42,107)
Deficit in the scheme	**(11,577)**	(12,225)
Related deferred tax asset	**2,315**	2,445
Net pension liability	**(9,262)**	(9,780)
Amounts in the Balance Sheet		
Assets	**-**	-
Liabilities	**(9,262)**	(9,780)
Net pension liability	**(9,262)**	(9,780)

The amounts recognised in the Profit and Loss account are as follows:

	31 March 2013	31 March 2012
	£'000	£'000
Current service cost	**1,776**	1,805
Interest on obligation	**1,965**	2,013
Expected return on Fund assets	**(1,775)**	(1,878)
Expense recognised in the Profit and Loss	**1,966**	1,940
Actual return on Fund assets	**3,154**	(62)

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

17. Pension fund - continued

Changes in the present value of the defined benefit obligation are as follows:

	31 March 2013 £'000	31 March 2012 £'000
Opening defined benefit obligation	**42,107**	36,895
Service cost	**1,776**	1,805
Interest cost	**1,965**	2,013
Contributions by members	**418**	467
Actuarial Losses/(Gains)	**(221)**	1,641
Benefits paid	**(1,073)**	(714)
Closing defined benefit obligation	**44,972**	42,107

Changes in the fair value of Fund assets are as follows:

	31 March 2013 £'000	31 March 2012 £'000
Opening fair value of Fund assets	**29,882**	29,101
Expected return	**1,775**	1,878
Actuarial (Losses)/Gains	**1,379**	(1,940)
Contributions by employer	**1,014**	1,090
Contributions by members	**418**	467
Benefits paid	**(1,073)**	(714)
Closing fair value of Fund assets	**33,395**	29,882

Analysis of amounts recognised in statement of total recognised gains and losses

	31 March 2013 £'000	31 March 2012 £'000
Total Actuarial Gains/(Losses)	**1,600**	(3,582)
Total Gains/(Losses) in statement of total recognised gains and losses	**1,600**	(3,582)
Cumulative amount of losses recognised in statement of total recognised gains and losses	**(5,955)**	(7,555)

Guernsey Post expects to contribute £933,677 to the Fund from 1 April 2013 to 31 March 2014.

GUERNSEY POST

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

17. Pension fund - continued

The major categories of Fund assets as a percentage of the total Fund assets are as follows:

	31 March 2013	31 March 2012
	%	%
Equities	**69**	67
Gilts	**4**	4
Corporate Bonds	**15**	15
Other Assets	**7**	6
Property	**5**	8

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages (where applicable)) are as follows:

	31 March 2013	31 March 2012
	% pa	% pa
Discount rate	**4.7**	4.7
Expected return on Fund assets at 31March (for following year)	**5.9**	5.9
Rate of increase in pensionable salaries	**4.35**	4.35
Rate of increase in deferred pensions	**3.6**	3.6
Rate of increase in pensions in payment	**3.6**	3.6

Mortality Assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member aged 65 will live on average until age 87 if they are male and until age 90 if female. For a member currently aged 45 the assumptions are that if they attain age 65 they will live on average until age 89 if they are male and until age 92 if female.

Description of the basis used to determine the expected rate of return on the assets

The Employer adopts a building block approach in determining the expected rate of return on the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at the disclosure year end.

Amounts for the current and previous are as follows:

	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	44,972	42,107	36,895	34,476	25,115
Fund Assets	33,395	29,882	29,101	25,126	18,615
Deficit	(11,577)	(12,225)	(7,793)	(9,350)	(6,500)
Experience Gains/(losses) on Fund assets	1,379	(1,940)	1,252	4,126	(7,027)
Experience Gains/(Losses) on Fund liabilities	202	1,913	312	1,335	(658)

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (continued) (year ended 31 March 2013)

18. Financial commitments

Capital commitments are as follows:

	31 March 2013 £'000	31 March 2012 £'000
Fixtures & fittings	**-**	97

Annual commitments under non-cancellable operating leases are as follows:

	31 March 2013 Land and buildings £'000	31 March 2012 Land and buildings £'000
Expiry date		
- within 1 year	**-**	-
- between two and five years	**11**	-
- after five years	**73**	81
	84	81

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

19. Statement of control

The Company is wholly owned and ultimately controlled by the States of Guernsey.

20. Related party transactions

Through the normal course of its business activity the Company both purchases and provides services to its shareholder or entities under the controlling influence of the shareholder body. These entities include States Trading Companies, companies whose equity is wholly owned by the States, States Departments and Boards operated by the States. All such transactions have been on an arm's length basis. The total value of the sales for the year ended 31 March 2013 amount to 1.9% of total turnover (2012: 1.3%). The total value of purchases for the year amounted to 1.2% of total expenses (2012: 1.0%).

The States also provides, through its treasury department, management of the Company's liquid funds in excess of short term needs. At 31 March 2013 the balance held was £10,608,616 (2012: £14,253,218).

21. Post balance sheet event

On 4 June 2013, the Board carried out a rigorous review of the Company's capital position. In the light of the successful response to the loss of LVCR and balanced against the major risks the Company still faces, the Board considered the medium-term financial performance and funding requirements of Guernsey Post, and approved a further return of £3.5m of surplus capital to Treasury & Resources. This will again be implemented through the structure of a share buy-back and is expected to take place in the final quarter of 2013, subject to the agreement of the States of Deliberation.

GUERNSEY POST

Guernsey Post Limited
Envoy House, La Vrangue, St Peter Port, Guernsey GY1 1AA
Telephone: 726241 Facsimile: 712082

INVESTOR IN PEOPLE

APPENDIX 3

COMMERCE AND EMPLOYMENT DEPARTMENT

PUBLIC TRUSTEE ANNUAL REPORT AND AUDITED ACCOUNTS 2012

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

6th August 2013

Dear Sir

The Public Trustee (Bailiwick of Guernsey) Law, 2002 provides, in section 6(1) that the Commerce and Employment Department is required to submit the report and accounts to the States of Guernsey on the exercise of the Public Trustee's functions for the preceding year.

I am pleased to enclose a copy of his report and audited accounts for the period 1 January to 31 December 2012.

Section 6 of the Law also provides that the Department may, at the same time, submit its own report commenting on the activities of the Public Trustee during this period.

The Department does not wish to add further comments on the activities of the Public Trustee.

I would be grateful if you would arrange to publish this submission as an Appendix to the next available Billet.

Yours faithfully

K A Stewart
Minister

REPORT OF THE PUBLIC TRUSTEE TO THE DEPARTMENT OF COMMERCE AND EMPLOYMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

Introduction

1. Under Section 6(1) of The Public Trustee (Bailiwick of Guernsey) Law, 2002 ("the Law"), the Public Trustee is required in each calendar year to submit to the Department of Commerce and Employment a report on the exercise of his functions in the preceding year together with the audited accounts of the Office of the Public Trustee.

Appointments and Assets held in Trust

2. At the end of 2011, the Public Trustee was trustee of thirteen trusts, with assets estimated in the region of £9 million.

3. Towards the end of the 2012, it was possible to transfer one trust, with assets of approximately £200,000, to new trustees in another jurisdiction, bringing the total number of trusts in the care of the Public Trustee to twelve.

4. There were no other appointments of the Public Trustee to act as trustee during the year. At the time of writing, there were no situations of which the Public Trustee is aware which are likely to result in further appointments being made in 2013.

Accounts and Auditors' Report

5. The accounts of the Office of the Public Trustee for the year to 31 December 2012, together with the auditors' report thereon, accompany this report.

6. Work levels during the year were similar to those of 2011. As in previous years, two trusts continue to present significant and complex problems and account for the bulk of the Trust and company administration fees (£103,260) charged during the year by professional providers of trust services working on behalf of the Public Trustee.

7. These fees, together with the Public Trustee's own charges make up the Trustee fees of £110,213 charged to the trusts.

8. Delays have been experienced in recovering amounts due to the Office of the Public Trustee, due to the lack of liquid assets in the trusts concerned. However, there are other trust assets the value of which can be realised, although the process of doing so may be protracted.

9. Overall, the cost of the Office of the Public Trustee to the States, as measured by the grant received from the States, decreased from £27,042 in 2011 to £17,390 in 2012. The reduction was due mainly to there being no need to make further provision for doubtful debts in 2012.

Conclusion

10. As pointed out in previous reports, the Public Trustee is primarily a trustee of last resort. As such, the trusts to which he is appointed when a fiduciary company is unable to continue in business, for whatever reason, are almost invariably those which are the most problematic, other trusts being taken on by other fiduciary companies. There are therefore inevitable implications for costs.

11. However, there have only been two instances since the Office of the Public Trustee was established in 2004 where the discontinuation of a fiduciary business has resulted in the appointment of the Public Trustee to act as trustee for some of its client trusts. This represents an insignificant proportion of the Bailiwick's trust industry and can be seen as an indication of its continuing health and good conduct.

D P Trestain B.Com., F.C.A.
Public Trustee
Bailiwick of Guernsey

25 July 2013

OFFICE OF THE PUBLIC TRUSTEE

STATEMENT OF ACCOUNT

31ST DECEMBER, 2012

LINCE SALISBURY

Chartered Accountants

Avenue House,

St. Julian's Avenue,

St. Peter Port,

GUERNSEY

OFFICE OF THE PUBLIC TRUSTEE

Statement of responsibilities for the preparation of financial statements

In accordance with The Public Trustee (Bailiwick of Guernsey) Law, 2002 the Public Trustee is responsible for the preparation of a statement of account for each financial year which gives a true and fair view of the state of affairs of The Office of the Public Trustee. He is responsible for selecting suitable accounting policies and, in preparing the statement of account the Public Trustee is expected to:

* apply suitable accounting policies on a consistent basis;

* make judgements and estimates that are reasonable and prudent;

* state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the accounts; and

* prepare the statement of account on a going concern basis, unless it is inappropriate to do so.

The Public Trustee acknowledges responsibility for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of The Office of the Public Trustee.

It is the responsibility of The Office of the Public Trustee to identify and install a system of internal controls, including financial controls, which is adequate for its own purposes. Thus The Office of the Public Trustee is responsible for safeguarding the assets in its care and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE OFFICE OF THE PUBLIC TRUSTEE

We have audited the financial statements of The Office of Public Trustee for the year ended 31st December, 2012 on pages 3 to 5 which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, under the historical cost convention and the accounting policies set out on page 5.

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

Respective responsibilities of The Office and Auditors

As explained in the Statement of Responsibilities The Office is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards of Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to The Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Public Trustee; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Public Trustee's Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:
- give a true and fair view of the state of The Office's affairs as at 31st December, 2012 and of its result for the year then ended,
- have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice,
- the financial statements have been properly prepared in accordance with The Public Trustee (Bailiwick of Guernsey) Law, 2002.

Lince Salisbury Limited

7th June 2013

Avenue House,
St. Julian's Avenue,
St. Peter Port,
GUERNSEY

LINCE SALISBURY LIMITED
CHARTERED ACCOUNTANTS

OFFICE OF THE PUBLIC TRUSTEE

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31st DECEMBER, 2012

	Note	2012		2011	
		£	£	£	£
Income	1				
Grant from States of Guernsey	1, 3		17,390		27,042
Trustee fees			110,213		100,387
			127,603		127,430
Expenditure	1				
Grant repaid to the States of Guernsey		-		-	
Audit fees		3,500		3,000	
Bank charges		64		63	
Legal fees		-		6,315	
Office administration		663		616	
Public Trustee remuneration		10,061		12,010	
Provision for doubtful debts		(1,771)		25,944	
Trust and company administration fees		103,260		82,036	
			(115,777)		(129,984)
Operating surplus / (deficit) before tax			11,826		(2,554)
Tax	2		-		-
Surplus / (deficit) for the year			£11,826		£(2,554)

OFFICE OF THE PUBLIC TRUSTEE

BALANCE SHEET AT 31st DECEMBER, 2012

	Note	2012 £	2011 £
Current assets			
Debtors		214,019	115,553
Bank		13,834	1,597
		227,853	117,150
Current liabilities			
Potential liability - grants	3	162,142	115,553
Accruals	3	3,950	3,478
Creditors	3	51,877	61
		217,969	119,092
Net assets / (liabilities)		£9,884	£(1,942)
Funded by:			
The Public Trustee Fund	4	£9,884	£(1,942)

The balance sheet was approved on 7 June 2013

D Trestain
Public Trustee

OFFICE OF THE PUBLIC TRUSTEE
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31ST DECEMBER, 2012

1. ACCOUNTING POLICIES

Historical Cost Convention

The statement of account is prepared under the historical cost convention and in accordance with UK applicable accounting standards.

Grants

Grants from the States of Guernsey Commerce and Employment Department are included on a received basis. Grants have been recognised as revenue items where they are not expected to become repayable to the States of Guernsey. Where grants have been received and a corresponding debtor is considered recoverable from the underlying client the potential liability has been recognised.

Other income and expenditure

Other income and expenditure is included on an accruals basis.

2. TAXATION

The Office of the Public Trustee is not subject to States of Guernsey Income Tax.

3. CREDITORS AND ACCRUALS

	2012	2011
	£	£
Creditors		
Professional trust administration fees and Deputy Trustee charges from Commerce & Employment Department	£ 51,877	£ 61
Accruals		
Audit fee	3,750	3,000
Public Trustee	195	473
Bank charges	5	5
	£ 3,950	£ 3,478
Potential Liabilities - Grants		
Grants from States of Guernsey	£ 162,142	£ 115,553

In previous years the potential liability was shown as a creditor. The repayable amount is now disclosed separately reflecting the understanding of the contingent nature of the corresponding debtor.

The Grant from the States of Guernsey is paid in accordance with section 8 of The Public Trustee (Bailiwick of Guernsey) Law, 2002. Any amounts paid by the States of Guernsey to cover expenditure that are subsequently recouped from the structures within the responsilibity of the Public Trustee become repayable to States of Guernsey. The potential liability due to the States of Guernsey represents the debts the Public Trustee expects to be recoverable from those structures.

4. THE PUBLIC TRUSTEE FUND

	2012	2011
	£	£
Balance brought forward	(1,942)	612
Surplus / (deficit) for year	11,826	(2,554)
Balance carried forward	£9,884	£(1,942)

APPENDIX 4

COMMERCE AND EMPLOYMENT DEPARTMENT

GCRA ANNUAL REPORT AND AUDITED ACCOUNTS 2012

The Chief Minister
Policy Council
Sir Charles Frossard House
La Charroterie
St Peter Port

6th August 2013

Dear Sir

GCRA ANNUAL REPORT AND AUDITED ACCOUNTS 2012

I enclose a copy of the Annual Report and Accounts 2012 of the Guernsey Competition and Regulatory Authority (formerly the OUR and enclosed within the report for CICRA 2012) and would be grateful if you would arrange for it to be published as an Appendix to the next available Billet d'État (October 2013).

Yours faithfully

K A Stewart
Minister

ANNUAL REPORT
2012

FOREWORD

This is the first annual report of the Channel Islands Competition and Regulatory Authorities (CICRA). It consists of a report on CICRA's activities together with separate sets of financial statements for the two authorities that comprise CICRA.

This report is presented to Jersey's Economic Development Minister and Guernsey's Commerce and Employment Department pursuant to provisions set out in the Competition Regulatory Authority (Jersey) Law 2001 and The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001. It also fulfils the requirements of the obligations on CICRA as set out in the Islands' competition laws and sector specific legislation.

What is CICRA?

The Channel Islands Competition and Regulatory Authorities is the name given to the Jersey Competition Regulatory Authority (JCRA) and the Guernsey Competition and Regulatory Authority (GCRA) (formerly the Office of Utility Regulation). The JCRA was established under the Competition Regulatory Authority (Jersey) Law, 2001, and the GCRA was established under the Guernsey Competition and Regulatory Authority Ordinance, 2012.

By working together, sharing resources and expertise between the islands, CICRA's aim is to ensure that consumers receive the best value, choice and access to high quality services, in addition to promoting competition and consumers' interests.

CICRA's functions

Competition
CICRA is responsible for administering and enforcing the Competition (Jersey) Law 2005 and The Competition (Guernsey) Ordinance, 2012. The aim of this legislation is to prevent consumers being harmed by anti-competitive or exploitative behaviour in the market (such as price-fixing or abuse of market power).

Advisory
CICRA can be called on to advise the Jersey's Economic Development Minister and Guernsey's Commerce and Employment Department on matters of economic regulation and competition.

Economic regulation
In common with many jurisdictions in the European Union, and further afield, the States of Jersey and the States of Guernsey have decided to structure particular previously States-run businesses as separate companies - albeit wholly-owned by the States. In Jersey's case this decision was taken in respect of the telecommunications and postal businesses now run by JT and Jersey Post respectively. In Guernsey's case this decision was taken in respect of the telecommunications, postal and electricity businesses now run by Cable and Wireless, Guernsey Post and Guernsey Electricity.

Who we are

CICRA is led by a joint board. The board consists of a Chairman, three non-executive directors and three executive directors. In addition CICRA has eight staff spread between Jersey and Guernsey.

The Chairman is jointly appointed by the States of Jersey and States of Guernsey on the recommendation of Jersey's Economic Development Minister and Guernsey's Commerce and Employment Department. In consultation with the Chairman, the Economic Development Minister and the Commerce and Employment Department are also responsible for the appointment of at least two non-executive directors and the appointment of executive directors to the Board.

How to find out more

More information on CICRA and its activities can be found on the website www.cicra.je or www.cicra.gg.

CHAIRMAN'S STATEMENT

In June 2012 the effective merger of the competition and regulatory authorities in Jersey and Guernsey was completed. Both bodies now operate under the aegis of the Channel Islands Competition and Regulatory Authorities (CICRA). Legislation in Guernsey transformed the previous Office of Utility Regulation (OUR) into the Guernsey Competition and Regulatory Authority (GCRA) governed by a board rather than as previously by a Director General. The members of the Jersey Competition Regulatory Authority board (JCRA) were appointed as members of the GCRA board. In anticipation of this move, Peter Neville had been appointed to the JCRA board. Peter was previously Director General of the Guernsey Financial Services Commission and brings valuable experience of regulation and of the business and political environment in Guernsey. Peter succeeded Robert Foster who retired from the JCRA board after eight years during which time his experience of regulation and competition in the UK was invaluable.

John Curran, as Director General of the OUR, played a major role in the integration of the two authorities when he was also appointed Chief Executive of the JCRA in September 2011. John had indicated that after seven years running the OUR he would not be seeking a further term when his contract expired in September 2012. After an open selection process Andrew Riseley, previously Deputy Chief Executive of the JCRA, was appointed as the new Chief Executive. Andrew joined the JCRA in July 2011 but has rapidly demonstrated his abilities across the range of the JCRA's work.

Even a small organisation such as CICRA needs a strong management team. Michael Byrne, previously Deputy Director General of the OUR, and Louise Read, previously Head of Finance and Operations at the JCRA, both played a major part in the creation of CICRA as well as effectively performing their normal responsibilities. In recognition of the roles they played, and continue to play, they were appointed as Executive Directors with effect from 1 August 2012.

The end result of what might seem a complicated process is that CICRA operates as a single body but formally takes decisions as GCRA or JCRA under the respective laws of the islands, which, while not identical, are sufficiently aligned so as not to cause significant problems in practice.

There is always a danger that corporate reorganisations result in the eye being taken off the ball. With so much going on we could not, and did not, allow that to happen. We have had to handle a rapid change in the nature of the postal services market affecting both islands and, while the telecoms market continues to grow in importance, the telecommunications market in the islands prove to be a challenge to operators and regulators alike. Here there is a real difference between Jersey and Guernsey; the dominant fixed line operator in Jersey being the States-owned Jersey Telecom while in Guernsey it is the international group Cable and Wireless. Fortunately, the two companies operate in both islands so have to reconcile their interests as both incumbent and entrant.

In Jersey the switch of emphasis in competition regulation towards local markets was completed and good progress that directly benefits the public has been made on petrol, fuel oil and school uniforms. It is disappointing that taxi regulation continues to operate in the interests of the providers of the service rather than the public, notwithstanding the compelling case for deregulation that the JCRA has made. In Guernsey, the legislation that created the GCRA also introduced a competition law for the first time, albeit with very limited funding that will restrict the amount of work that can be done. However, an early success has been the ending of the scale of fixed fees for conveyancing which will provide an immediate and direct benefit to house buyers.

The creation of CICRA has been a success, although operating in two islands with real differences in structures and approaches is a challenge, particularly when the governments have their own agendas. There is much talk of further integration between the islands. CICRA shows what can be done, and is frequently mentioned in the wider debate, but, as Europe has discovered, merged functions require a degree of political integration for which the politicians may not be ready. CICRA will be happy to share its experiences with others as the prize, in terms of greater efficiency and effectiveness, from combined working is substantial.

CICRA has an effective board and an excellent executive team. I am grateful to all my colleagues for the contribution they have made during the year. Combining a major structural change and operating in two different jurisdictions, while maintaining appropriate regulation in ever changing markets, is a real challenge and one that the organisation has more than met.

Mark Boleat
Chairman

CHIEF EXECUTIVE'S REPORT

It was a great honour to be appointed as Chief Executive of the Channel Islands Competition and Regulatory Authorities (CICRA) from 13 June 2012. As regulator of competition and utilities, CICRA has a vital role to play in protecting the interests of consumers in the Channel Islands, while also encouraging innovation and growth in local economies, and high-quality and efficient infrastructure. My appointment coincided with the launch of the Guernsey Competition and Regulatory Authority (GCRA) which shares a board with the Jersey Competition Regulatory Authority (JCRA). The board structure provides useful scrutiny and challenge for CICRA's decisions and contributes different perspectives on our regulatory objectives as well as being a helpful source of counsel and support for CICRA's executive.

In a short time, my predecessor, John Curran, made great strides in integrating the Guernsey and Jersey CICRA offices and in sharing the best aspects of both organisations. The creation of the joint CICRA board has been an important step to formalising those arrangements. Continuing that process of integration, particularly in the context of an overall reduction in employee numbers, remains an important task for the CICRA executive.

Competition Law

The past year saw the introduction of competition law in Guernsey, with The Competition (Guernsey) Ordinance, 2012 coming into effect on 1 August. Much of our initial work on competition law has involved educating businesses and their advisors, individual consumers and States departments about the requirements of the new law; for example, we published new pan-CI guidelines on various aspects of competition law and its administration and enforcement.

We have also instigated a number of competition law investigations during the course of the year in both islands. After completing market studies in Jersey on heating oil and electricity, we look forward to conducting our first pan-Channel Islands market study in relation to grocery retailing in 2013. We have also moved closer to obtaining amendments to the merger notification thresholds in Jersey to mirror those applied in Guernsey. The new thresholds, based on the merging businesses' local turnover, will be more objective than the 'share of supply' tests they replace and will also assist in concentrating CICRA's resources on reviewing material transactions with a significant link to the Channel Islands.

Telecommunications

The largest area of CICRA's work continues to be telecommunications. Work on the allocation of new spectrum, for use by 4G applications, will restart in 2013 and should benefit from the results of a joint strategic review of spectrum policy by the States of Guernsey and Jersey. We procured an independent audit of emissions of electromagnetic radiation from every mobile mast in the bailiwicks during 2012 and were pleased to report that all masts in the Channel Islands are well within the limits given by international standards. We took the first steps in 2012 to encouraging further competition in the provision of landline services across the Channel Islands and expect to see the introduction of new wholesale telecoms products (such as wholesale line rental) during the course of 2013. Work has also begun on harmonising our approach to telecoms regulation in Guernsey and Jersey on matters such as separated accounts, interconnection rates and on-island leased lines. Our intention in 2013 is to increase our focus on consumers' interests in areas such as quality of service, 'bill shock' and variations to fixed-term contracts.

The Postal Sectors

Postal sectors in almost all jurisdictions have experienced considerable challenges in recent years with steep reductions in the volume of letters carried offset, somewhat, by sizeable increases in carriage of parcels and packets as a result of the move to online shopping. The changes for the sector in the Channel Islands have been even more dramatic after a sharp decline in bulk mail due to the abolition of Low Value Consignment Relief (LVCR) for postal items shipped to the United Kingdom in April 2012. Despite the effect of the abolition of LVCR the two incumbent postal operators in the Channel Islands are both profitable and their medium-term future looks sustainable, in part, due to the cost reductions produced by regulatory pressure in prior years. In addition, other postal licensees have adapted their business models in the past year and continue to provide options and choice for larger postal customers. CICRA has recognised the evolution of the postal sector and is in the process of consulting on a new, reduced form of postal regulation. The proposed approach would monitor quality of service and provision of the Universal Service Obligation, while allowing market forces (and the ever-growing threat of substitution by electronic communication) to constrain the prices of postage.

Electricity

The development of our regulation of the electricity sector in Guernsey awaits the results of a further review by government. CICRA recognises that Guernsey Electricity Limited (GEL) and its shareholder, the States of Guernsey, face major decisions in relation to future capital expenditure, and the method by which that expenditure is financed, as well as in considering security of supply in the long-term. CICRA remains convinced that there is a role for independent regulation in representing the interests of consumers and in ensuring that GEL maximises its efficiency. However, we recognise that the scope of any such role in the future needs to focus on where economic regulation can best support broader policy goals.

Finally, I would like to pay tribute to the staff of CICRA particularly Deputy Chief Executive, Michael Byrne, and Director of Finance and Operations, Louise Read, and to thank them for supporting me and their hard work for local consumers. Many businesses and organisations in the Channel Islands are familiar with the challenges of being relatively small in scale. CICRA must also be innovative and pragmatic in order to cover effectively the range of functions undertaken by much larger counterparts in other jurisdictions. Our success to date in doing so is in no small part due to the resourcefulness and diligence of all of my colleagues.

Andrew Riseley
Chief Executive

THE BOARD

Mark Boleat
Chairman

Appointed chairman of the joint board on 1 June 2012, having previously been appointed JCRA chairman in April 2010, Mark has extensive experience in regulatory policy and practice and the handling of complex public policy issues. He holds, or has held, numerous board level appointments in commercial, public and charitable organisations including Chairman of the States of Jersey Development Company and Chairman of the City of London Policy and Resources Committee. He has strong ties to Jersey having been born and educated in the island. He has written extensively on Jersey and has undertaken three significant reviews for the States of Jersey including one on consumer policy.

Richard Povey
Non-Executive Director

Appointed non-executive director of the joint board on 1 June 2012, having been appointed a JCRA non-executive director in May 2005Richard has extensive industrial experience particularly in the petrochemical, mechanical and electrical engineering, and telecommunications sectors. He held a number of senior management positions in Swire Pacific Ltd in Hong Kong and Taiwan between 1979 and 1996. Since 1996, he has held non-executive positions for various fund management and industrial companies. He is currently a Non-Executive Director of Henderson Far East Income Ltd.

Philip Marsden
Non-Executive Director

Appointed non-executive director of the joint board on 1 June 2012, having been appointed a JCRA non-executive director in September 2010, Philip is a competition lawyer with a particular interest in abuse of dominance, consumer welfare, innovation incentives and international competition issues. His current portfolio includes being the director of the Competition Law Forum, Senior Research Fellow at the British Institute of International and Comparative Law, Non-Executive Director of the UK Office of Fair Trading and a visiting professor at the College of Europe, Bruges.

Peter Neville
Non-Executive Director

Appointed non-executive director of the joint board on 1 June 2012, having been appointed a JCRA non-executive director in April 2012, Peter is the former director general of the Guernsey Financial Services Commission having headed the financial watchdog for over eight years. He is currently chairman of Kleinwort Benson in Guernsey.

After reading law at Oxford, Peter qualified as an accountant and then worked as a banker and merchant banker in the City and the Far East. He worked for City watchdog IMRO, which is now part of the Financial Services Authority, and for the Lloyd's of London insurance market. He also advised the Maltese authorities on regulating financial services business.

THE BOARD (CONTINUED)

Andrew Riseley
Chief Executive

Andrew was appointed Chief Executive on 13 June 2012 having joined the JCRA as Deputy Chief Executive in July 2011.

Andrew is a competition and regulatory lawyer, who has worked at large law firms in both the UK and Australia, at one of the UK's competition regulators, and in-house at a major UK utility. He has extensive experience in utility regulation, competition law and public procurement.

Andrew is admitted to practise as a solicitor in England and Wales and Victoria, Australia. He holds post-graduate qualifications in competition law and economics from the London School of Economics and Political Science and degrees with first-class honours in economics and law from Monash University in Australia.

Michael Byrne
Deputy Chief Executive

Michael was appointed Deputy Chief Executive on 1 August 2012 having joined the GCRA in May 2005 before being appointed Deputy Director General in December 2007.

Michael has extensive experience applying regulation and competition law in the UK energy, media and telecoms sectors.

Michael holds a diploma in Company Direction from the IoD, an MBA, a post graduate qualification in European Competition Law, and a Bachelor of Science Honours degree in Mathematical Statistics.

Louise Read
Director of Finance and Operations

Louise was appointed Director of Finance and Operations on 1 August 2012 having joined the JCRA as Finance and Operations Manager in June 2009.

Louise is a chartered accountant, with extensive experience of managing finance, personnel and operational aspects of business. She played a lead role in the integration of the JCRA and GCRA to form CICRA. She is the board and audit and risk committee secretary.

Louise was previously the Group Financial Accountant at Jersey Post, and has worked with many of Jersey's businesses during her time at PwC.

Louise holds a diploma in Company Direction from the Institute of Directors, is a fellow of the Institute of Chartered Accountants in England and Wales and a BSc in Accounting and Management Sciences from the University of Southampton.

FINANCIAL STATEMENTS 2012

The Guernsey Competition and Regulatory Authority (GCRA) made an accounting deficit of £23k in 2012 (2011: £1 restated). With effect from 2012, the GCRA accounts for income to meet its actual costs during the year. It must also ensure that enough income is received from each of the four areas that it covers – competition law administration and enforcement, and regulation of the telecoms, postal and electricity sectors, to fund them separately, given that cross-subsidisation is not permitted. A working balance and an appropriate level of reserves are maintained at all times, but for the purpose of the financial statements, deferred income adjustments are made to match income with costs. A prior year adjustment has been made to the financial statements in this respect.

Overall costs in 2012 increased by £24k to £671k compared with 2011. The main increases were in staff and salary costs reflecting the cost of operating under a board structure. Expenditure continues to be closely controlled by the GCRA maintaining strict internal guidelines with regard to purchasing and tendering procedures which, combined with corporate governance in line with best practice, helps to ensure that it is run as an effective and efficient organisation. An audit of policies and procedures was undertaken during 2012, by independent internal auditors, to ensure that appropriate standards, processes and procedures were in place. It is the intention of the Board that this internal audit should be undertaken annually hereafter.

In line with the service level agreement between the GCRA and the Commerce and Employment Department (C&E), grant funding for work under The Competition (Guernsey) Ordinance, 2012 was received quarterly in advance. During 2012 a grant of £135k was received. The cost of work undertaken in respect of Guernsey's competition law exceeded the grant by £23k. The GCRA has notified C&E of the overspend in accordance with section 7.1 of the Service Level Agreement in place between the GCRA and C&E.

Income of £10k was received in the form of mergers and acquisitions fees.

At the year end telecoms licence fees exceeded costs by £62k and this balance was therefore accounted for as deferred telecommunications licence fee income, to be returned to the operators during 2013. Based on budgeted costs, the licence fees for 2012 were once again set at 0.75% of licensable turnover.

Postal licence fees from Guernsey Post continued to be received on a monthly basis. During 2012 £180k of licence fees were received (2011: £180k) and at the year end there was deferred postal licence fee income of £101k, which will be returned to Guernsey Post in 2013.

Electricity licence fees from Guernsey Electricity continued to be received on a monthly basis. During 2012 £180k of licence fees were received (2011: £180k) and at the year end there was deferred electricity licence fee income of £85k, which will be returned to Guernsey Electricity in 2013.

GUERNSEY COMPETITION AND REGULATORY AUTHORITY

(Incorporated in Guernsey, Channel Islands)

MEMBERS
Mark Boleat (Non-Executive Chairman) – appointed 1 June 2012
Richard Povey (Non-Executive Director) – appointed 1 June 2012
Philip Marsden (Non-Executive Director) – appointed 1 June 2012
Peter Neville (Non-Executive Director) – appointed 1 June 2012
Robert Foster (Non-Executive Director) – appointed 1 June 2012, resigned 1 August 2012

Andrew Riseley (Chief Executive) – appointed 13 June 2012
Michael Byrne (Deputy Chief Executive) – appointed 1 August 2012
Louise Read (Finance and Operations Director) – appointed 1 August 2012
John Curran (Chief Executive) – resigned 13 June 2012

SECRETARY
Louise Read

INDEPENDENT AUDITORS
BDO Limited,
P O Box 180
Place Du Pre
Rue Du Pre
St Peter Port
Guernsey
GY1 3LL

BANKERS
Lloyds Bank Offshore Limited
Sarnia House
Le Truchot
Guernsey
GY1 4EF

HSBC Bank plc
PO Box 14
St Helier
Jersey
JE4 8NJ

REGISTERED OFFICE
Suites B1 & B2
Hirzel Court
St Peter Port
Guernsey
GY1 2NH

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
MEMBERS' REPORT

The Members of the Guernsey Competition and Regulatory Authority (GCRA) present their report and financial statements for the year ended 31 December 2012.

ACTIVITIES

The principal activities of the GCRA during the year were the regulation of the telecommunications, electricity and postal industries and the administration and enforcement of The Competition (Guernsey) Ordinance, 2012.

RESULTS

There was a deficit for the year of £22,816 (2011: surplus £1 restated).

MEMBERS

The Members in office during the year and when these financial statements were approved are shown on page 8.

INDEPENDENT AUDITORS

The auditors, BDO Limited, who were appointed in accordance with Section 13(4)(a) of The Guernsey Competition and Regulatory Authority Ordinance, 2012, have indicated their willingness to continue in office.

By order of the Members

Louise Read
Secretary
8 March 2013

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
STATEMENT OF MEMBERS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Guernsey Competition and Regulatory Authority Ordinance, 2012, requires Members to prepare financial statements in accordance with generally accepted accounting principles which show a true and fair view of the surplus or deficit of the GCRA for the year and of the state of the GCRA's affairs at the end of the year.

In preparing the financial statements the members are 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 presume that the GCRA will continue in operation; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The members are responsible for keeping accounting records which are sufficient to show and explain the GCRA's transactions and are such as to disclose with reasonable accuracy, at any time, the financial position of the GCRA and to enable them to ensure that the financial statements comply with The Guernsey Competition and Regulatory Authority Ordinance, 2012. They are also responsible for safeguarding the assets of the GCRA and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Members confirm that these financial statements comply with these requirements.

The Ordinance also requires the GCRA's accounts to be audited annually by auditors appointed by the States of Guernsey on the recommendation of the Public Accounts Committee and the accounts to be submitted, together with the auditor's report to the Commerce and Employment Department. The Commerce and Employment Department, in turn, must submit the accounts and the auditors report thereon to the States of Guernsey.

INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF THE GUERNSEY COMPETITION AND REGULATORY AUTHORITY
(formerly Office of Utility Regulation)

We have audited the financial statements of the Guernsey Competition and Regulatory Authority for the year ended 31 December 2012 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards ('United Kingdom Generally Accepted Accounting Practice').

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

Respective responsibilities of the members and auditor

As explained more fully in the Statement of Members' Responsibilities on page 10, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the members; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Authority's affairs as at 31 December 2012 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the requirements of the Competition and Regulatory Authority Ordinance, 2012.

CHARTERED ACCOUNTANTS
Place du Pré
Rue du Pré
St Peter Port
Guernsey

8 March 2013

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012	2011 (as restated)
		£	£
INCOME			
Licence fees		496,487	641,963
Commerce and Employment Board grant		135,000	-
Mergers and acquisitions fees		10,000	-
Bank interest received		4,473	5,146
Application fees		2,500	-
		648,460	647,109
EXPENDITURE			
Salaries and staff costs		482,623	456,967
Consultancy fees		51,903	51,744
Operating lease rentals		37,029	42,685
Travel and entertainment		20,186	18,607
Conference and course fees		9,987	14,202
Depreciation		2,784	5,567
Administration expenses		10,458	7,029
Legal and professional fees		(610)	3,640
General expenses		7,011	3,126
Audit and accountancy fee		10,478	7,638
Advertising and publicity		12,549	300
Repairs and maintenance		23,687	33,849
Heat, light and water		1,992	1,754
Recruitment		1,197	-
		671,274	647,108
(DEFICIT) / SURPLUS FOR THE YEAR	5	(22,816)	1

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		2012	2011 (as restated)
		£	£
(Deficit) / Surplus for the year		(22,816)	1
Prior period adjustment	10	(184,649)	-
Total gains and losses recognised since last annual report		(207,465)	1

Historical cost equivalent
There is no difference between the net deficit for the year stated above and its historical cost equivalent.

Continuing Operations
All the items dealt with in arriving at the (deficit) / surplus in the income and expenditure account relate to continuing operations.

The notes on pages 15-19 form an integral part of these financial statements.

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
BALANCE SHEET
AS AT 31 DECEMBER 2012

	Notes	*2012* £	*2011 (as restated)* £
FIXED ASSETS			
Tangible fixed assets	2	5,931	8,425
CURRENT ASSETS			
Debtors and prepayments	3	62,853	41,959
Cash at bank		715,206	449,547
		778,059	491,506
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	4	518,643	211,768
NET CURRENT ASSETS		259,416	279,738
TOTAL ASSETS LESS CURRENT LIABILITIES		265,347	288,163
RETAINED SURPLUS	5	265,347	288,163

The financial statements on pages 12 to 19 were approved and authorised for issue by the members and signed on their behalf by:

Mark Boleat
8 March 2013

The notes on pages 15 - 19 form an integral part of these financial statements.

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	*2012*	*2011*
		£	£
Net cash inflow from operating activities	6	261,476	69,179
Returns on investment and servicing of finance			
Interest received		4,473	5,146
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(290)	(7,251)
Increase in Cash		265,659	67,074

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2012	*2011*
	£	£
Increase in cash in year	265,659	67,074
Net funds at 1 January	449,547	382,473
Net funds at 31 December	715,206	449,547

The notes on pages 15 – 19 form an integral part of these financial statements.

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2012

1. ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention and in accordance with accounting principles generally accepted in the Bailiwick of Guernsey, incorporating United Kingdom accounting standards.

A summary of the accounting policies that the members have applied is set out below

a) Interest received
Interest on bank deposits is accounted for on a cash received basis.

b) Fixed assets
Fixed assets are stated at cost less depreciation.

Depreciation is provided on all tangible fixed assets at rates calculated to write down their cost on a straight line basis to their estimated residual values over their expected useful economic lives. The depreciation rates used are as follows:

Office equipment	- 20% per annum
Fixtures and fittings	- 20% per annum
Website	- 33% per annum
Computer equipment	- 20% per annum

c) Leasing commitments
All leases are operating leases. Rentals payable under operating leases are charged in the income and expenditure account on a straight line basis over the lease term.

d) Grants
Grants received from the Commerce and Employment Department are accounted for in the period to which they relate. Any unused funds at the financial year end are either deferred or repaid to the Department. Any deficits are funded from future grants. Deferred grant income as at 31 December 2012 amounted to (£22,816) effectively a funding deficit which will be funded from 2013 grant income.

The grant received for 2012 was £135,000 (2011:£nil)

e) Telecoms licence fees
Licence fees are set on the basis of cost recovery in accordance with section 6 of The Telecommunications (Bailiwick of Guernsey) Law, 2001. The GCRA's costs are determined on an annual basis. A percentage is applied to the licensed revenues of the Operators on the basis of forecast relevant turnover, or if appropriate an annual fee. The percentage for 2012 was 0.75% (2011: 0.75%).

Fee income is recognised in the period to which it relates. Should fee income exceed costs, the balance is transferred to deferred income.

a) Postal licence fees
Licence fees are set on the basis of cost recovery in accordance with section 6 of The Post Office (Bailiwick of Guernsey) Law, 2001. The GCRA's costs are determined on an annual basis and these are recovered through charging an annual fee.

The fee for 2012 was set at £180,000 (2011: £180,000).

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2012

ACCOUNTING POLICIES (CONTINUED)

Fee income is recognised in the period to which it relates. Should fee income exceed costs, the balance is transferred to deferred income.

b) Electricity licence fees
Licence fees are set on the basis of cost recovery in accordance with section 6 of The Electricity (Guernsey) Law, 2001. The GCRA's costs are determined on an annual basis, and these are recovered through charging an annual fee.

The fee for 2012 was set at £180,000 (2011: £180,000).

Fee income is recognised in the period to which it relates. Should fee income exceed costs, the balance is transferred to deferred income.

c) Taxation
Under section 12 of The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 the GCRA is exempt from Guernsey Income Tax.

d) Expenditure
Expenditure is accounted for on an accruals basis.

1. TANGIBLE FIXED ASSETS

	Office equipment	*Fixtures and Fittings*	*Computer equipment*	*Website costs*	*Total*
	£	*£*	*£*	*£*	*£*
Cost					
At 1 January 2012	31,108	3,265	20,981	4,125	59,479
Additions	-	290	-	-	290
Disposals	-	(1,190)	-	-	(1,190)
At 31 December 2012	31,108	2,365	20,981	4,125	58,579
Depreciation					
At 1 January 2012	30,255	3,265	17,076	458	51,054
Charge in the year	625	15	1,319	825	2,784
On disposals	-	(1,190)	-	-	(1,190)
At 31 December 2012	30,880	2,090	18,395	1,283	52,648
Net book value:					
At 31 December 2012	228	275	2,586	2,842	5,931
At 31 December 2011	853	-	3,905	3,667	8,425

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR YEAR ENDED 31 DECEMBER 2012

2. DEBTORS AND PREPAYMENTS

	2012	*2011*
	£	£
Prepayments	20,612	16,377
Trade debtors	42,241	23,598
Accrued income	-	1,984
	62,853	41,959

3. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012	*2011 (as restated)*
	£	£
Accruals	20,105	7,321
Deferred licence fee income	432,753	185,649
Trade creditors	65,785	18,798
	518,643	211,768

4. MOVEMENT ON RETAINED SURPLUS

Income and Expenditure Account	*2012*	*2011 (as restated)*
	£	£
At 1 January*	288,163	288,162
(Deficit) / Surplus for the year	(22,816)	1
At 31 December	265,347	288,163

Originally £472,812 before deducting prior year adjustment of £184,649

5. CASH FLOW STATEMENT

Reconciliation of (deficit) / surplus for the year to net cash inflow from operating activities:

	2012	*2011 (as restated)*
	£	£
Operating (deficit) / surplus	(22,816)	1
Depreciation	2,784	5,567
Bank interest	(4,473)	(5,146)
Decrease in debtors	(20,894)	(20,992)
Increase in creditors	306,875	89,749
Net cash inflow from operating activities	261,476	69,179

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

6. RELATED PARTIES

a) The transacting parties are:
- The Commerce and Employment Department
- Guernsey Competition and Regulatory Authority (GCRA)

Relationship
The GCRA acts independently of the States, but is accountable to the Commerce and Employment Department in respect of its funding for the Competition (Guernsey) Ordinance, 2012, which is also covered by a Service Level Agreement. The GCRA reports formally to the Commerce and Employment Board on an annual basis.

Transactions
In 2012, the Commerce and Employment Department provided funds to the GCRA to finance the administration and enforcement of the Competition (Guernsey) Ordinance, 2012.

Amounts involved
- £135,000 received during the year under the provisions of The Guernsey Competition and Regulatory Authority Ordinance, 2012.

There were no amounts due to the Commerce and Employment Department at the balance sheet date. The funding deficit for 2012, which has been notified to the Commerce and Employment Department as required under the service level agreement, amounted to £22,816.

b) The transacting parties are:
- Guernsey Competition and Regulatory Authority (GCRA)
- Jersey Competition Regulatory Authority (JCRA)

Relationship
The GCRA and the JCRA work together under the aegis of the Channel Islands Competition and Regulatory Authorities (CICRA) sharing a board, resources and expertise between the islands whilst retaining their own separate legal identities.

Transactions
The GCRA and JCRA share resources and expertise and recharge each other for expenses incurred (including staff costs) on a no gain no loss basis.

Amounts involved
- £232,282 invoiced during 2012 by the GCRA to the JCRA
- £78,376 invoiced during 2012 by the JCRA to the GCRA

Amounts due to and from the Jersey Competition Regulatory Authority at the balance sheet date

	2012 £	*2011* £
Amounts due to the JCRA from the GCRA (included within trade creditors)	11,788	1,789
Amounts due by the JCRA to the GCRA (included within trade debtors)	41,741	23,334

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

7. FINANCIAL COMMITMENTS

At 31 December 2012 the GCRA had annual commitments under non-cancellable operating leases as set out below:

	Buildings	
	2012	*2011*
	£	£
Operating leases which expire:		
Not later than one year	-	-
In more than one year but less than five years	41,016	40,368
Later than five years	-	-
	41,016	40,368

8. TRANSFER FROM OFFICE OF UTILITY REGULATION (OUR) TO GUERNSEY COMPETITION AND REGULATORY AUTHORITY (GCRA)

The Guernsey Competition and Regulatory Authority Ordinance, 2012 came into force on 1 June 2012. The effect of the Ordinance was to transfer the functions, rights and liabilities of the Director General of Utility Regulation and the Office arising thereof, known as the Office of Utility Regulation (OUR) to the Guernsey Competition and Regulatory Authority (GCRA).

9. PRIOR YEAR ADJUSTMENT

In accordance with FRS3 – Reporting Financial Performance, the GCRA has made a prior year adjustment to reflect the impact of a change in the accounting policy adopted in relation to revenue recognition. The effect of the change made is to recognise licence fees and grant income only to cover the costs incurred during the accounting period. Any excess of licence fees are transferred to creditors as deferred fee or grant income and any deficits, above the level of previously deferred income, are recognised in reserves. The GCRA considers that this more appropriately reflects the authority’s need to charge licence fees and receive grant income to cover the costs incurred in discharging its responsibilities set out in the laws it administers and enforces.

Had the change to accounting policy not been made the GCRA would have recorded a surplus in 2012 of £201,292 (2011: £184,650), and creditors of £311,177 (2011: £27,119).

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
CORPORATE GOVERNANCE GUIDELINES

The GCRA is an autonomous body and independent in its decision making from the States of Guernsey. But under powers in section 3 of the Guernsey Competition and Regulatory Authority Ordinance, 2012 (the Ordinance), the Commerce and Employment Department (the Department) "may, if it considers it desirable in the public interest to do so, and after consulting the GCRA, give to the GCRA written guidance on matters relating to corporate governance, that is to say, matters relating to the system and arrangements by and under which the GCRA is directed and controlled". The following are the Corporate Governance Guidelines as agreed between the Department and the GCRA.

What is Corporate Governance?

"Corporate Governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance." – OECD April 1999

Constitution of the GCRA

The GCRA is a statutory body corporate established under Section 1 of the Ordinance. The governing body is a Board of Directors which directs regulatory, licensing, financial, operational and strategic policies of the GCRA.

Functions of the GCRA

The functions of the GCRA are as set out in Section 4 of the Ordinance and may be summarised as follows:

1. To advise the Department generally in relation to the administration and enforcement of competition legislation and the related practice and procedures.

2. To advise the Department generally in relation to competition matters, and in particular:
   a) The abuse of or suspected abuse of a dominant position by undertakings
   b) Anti-competitive practices or suspected anti-competitive practices of undertakings
   c) Mergers or Acquisitions of undertakings.

3. Subject to the provisions of the Competition (Guernsey) Ordinance, 2012, to investigate:
   a) Any abuse or suspected abuse of a dominant position by an undertaking
   b) Any anti-competitive practice or suspected anti-competitive practice of an undertaking
   c) Any merger or acquisition of undertakings.

4. To administer its office and undertaking.

5. To determine the fees payable and costs and expenses recoverable in respect of the exercise of its functions, including interest and penalties payable in the event of default.

6. Any other functions assigned or transferred to the GCRA by legislation or Resolution of the States.

Constitution of the Board of Directors

Paragraph 1(1) of Schedule 1 to the Ordinance requires that the GCRA shall consist of a minimum of 3 members, one of whom shall be the Chairman.

Members of the Board are appointed by the Department after consultation with the Chairman. Vacancies which arise on the Board are filled through the use of an open and transparent process. A vacancy is usually advertised and once a suitable candidate is identified, a recommendation is made to the Department.

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
CORPORATE GOVERNANCE GUIDELINES (CONTINUED)

Under the provisions of Paragraph 1(2) of Schedule 1 to the Ordinance, the appointment of the Chairman is a matter reserved for decision by the States of Guernsey on the recommendation of the Minister.

On appointment, a member will receive an induction to the work of the Board and the GCRA. This includes an opportunity to meet all members of staff.

Under the provisions of Paragraph 2(2) of Schedule 1 to the Ordinance, members are appointed for a period not exceeding five years and upon expiry of such a period are eligible for reappointment.

Operations of the Board of Directors

The Board sets strategic policy and the implementation of these policies is undertaken by the Executive.

The Board usually meets at least eight times per year and will hold additional meetings when circumstances require it. Under the provisions of paragraph 6 of Schedule 1 to the Ordinance, the quorate number of members to hold a Board meeting is the nearest whole number above one half of the number of members. Currently, therefore, the quorate number is four. The Chairman, or person presiding over the meeting has no vote unless there is an equality of votes, in which case he has a casting vote.

In advance of each meeting, members are provided with comprehensive briefing papers on the items under consideration. The Board is supported by the Board Secretary who attends and minutes all meetings of the Board.

Paragraph 13 of Schedule 1 to the Ordinance empowers the Board to delegate by an instrument in writing any of its functions to any of its members, officers or employees named or described in the instrument, including to a committee of members, officers and/or employees. However, the Board is not authorised to delegate this power of delegation, nor the function of considering representations concerning a proposed decision against which there is a right of appeal, any obligation to submit a report to the Department, nor to determine the Chief Executive's minimum term of office.

The GCRA maintains a three year Strategic Plan, which incorporates an Annual Business Plan detailing a number of annual objectives plus annual budgets. These are prepared by the Chief Executive in the third quarter of each year and may incorporate, amongst other things, any strategic issues raised by the Board at its annual away day, and comments received during public consultation and through consultation with the Department. This is considered by the Board before the 1st of November each year.

The Board monitors the performance of the GCRA against the annual objectives and budget through reports at its regular Board meetings.

The Chairman makes recommendations to the Department in respect of fees paid to Board members.

Committees of the Board

Paragraph 5 of Schedule 1 to the Ordinance enables the GCRA to establish committees.

The Board has established an Audit and Risk Committee. The members of this committee are selected from the Non-Executive Directors and are appointed by the Board.

**GUERNSEY COMPETITION AND REGULATORY AUTHORITY
CORPORATE GOVERNANCE GUIDELINES (CONTINUED)**

The key duties of the Audit and Risk Committee are:-

- To review annually the GCRA's application of corporate governance best practice;
- To review the mechanisms for ensuring the effectiveness of the GCRA's internal controls;
- To review and agree the internal auditor's annual work plan, monitor and review the effectiveness of any internal audit work carried out and review all reports from the internal auditors, monitoring the Executive's responsiveness to the findings and recommendations.
- To meet the internal auditors at least once a year, without the presence of the Executive.
- To consider certain matters relating to the external audit of the GCRA's annual financial statements (including reviewing those financial statements prior to their consideration by the Board).

The members of the Audit and Risk Committee at the balance sheet date were Peter Neville (Chairman), Philip Marsden and Richard (Dick) Povey. The Chief Executive is expected to attend the meetings of the Audit and Risk Committee in an advisory capacity.

Openness, Integrity and Accountability

The GCRA abides by the principles of openness, integrity and accountability – and those standards which are widely recognised as being applicable to public service, and to the conduct of all involved in public life.

In the discharge of its duties, the GCRA will ensure:

- That subject to the appropriate level of confidentiality, it maintains an openness in its public affairs, in order that the public can have confidence in the decision-making processes and actions of public service bodies, in the management of the GCRA's activities, and in the Board Members and staff of the GCRA itself;

- That it maintains at all times an appropriate degree of integrity in the conduct of its affairs. Integrity comprises both straightforward dealing and completeness. The GCRA bases its integrity upon honesty, selflessness and objectivity, and high standards of propriety and probity in the stewardship of its funds and management of its affairs;
- That it is fully accountable in the application of the public funds and that these are properly safeguarded, and are used economically, efficiently and effectively.

The three fundamental principles, defined above in terms of public sector bodies, have been refined to include the findings and recommendations of the Nolan Committee on Standards in Public Life. The GCRA will make its best efforts to abide by Nolan's seven general principles that underpin public life, namely: selflessness, integrity, objectivity, accountability, openness, honesty, and leadership.

Audit and Accounts

While the GCRA is an independent body, it is accountable for its overall performance to the States of Guernsey through the Department.

Section 13(3) of the Ordinance requires that the GCRA shall keep proper accounts and proper records in relation to those accounts and prepare in respect of each year, and submit to the Department, a statement of account giving a true and fair view of the state of affairs of the GCRA. These accounts shall be audited annually by auditors appointed by the States on the recommendation of the Public Accounts Committee and submitted, together with the auditors' report to the Department.

The Department will in turn submit the accounts to the States in the form of an Annual Report which also details the work that the GCRA has undertaken during the relevant year.

**GUERNSEY COMPETITION AND REGULATORY AUTHORITY
CORPORATE GOVERNANCE GUIDELINES (CONTINUED)**

General Conditions regarding States Grant Funding

These general conditions apply to the external bodies in receipt of grant funding from the Department.

A Guidance from Department to Authority

Under powers granted by Section 3(1) of the Ordinance, the Department may, if it considers it desirable in the public interest to do so, and after consulting the GCRA, give the GCRA written guidance on matters relating to corporate governance, that is to say matters relating to the system and arrangements by and under which the GCRA is directed and controlled. Those matters include matters relating to the GCRA's accountability, efficiency, and economy of operation, but not matters relating directly to the performance of the GCRA's functions. The guidance may, without limitation, relate to conflicts of interest, the GCRA's accounts and the audit thereof, the borrowing of money by the GCRA and the investment of the GCRA's funds, and the GCRA shall have regard to any guidance given by the Department.

B Conditions for spending the grant

Once the grant allocation has been approved by the Department, the GCRA will have the authority to incur expenditure on the following conditions:

- Neither the Board nor its officers may authorise expenditure materially in excess of that set out in the budget, nor may act in such a way as to compromise the GCRA's capacity to operate within its budget.
- The GCRA must obtain approval to incur any known expenditure which has, or could have, a significant future cost implication. Where this pertains to seeking legal advice for the GCRA in pursuit of its activities on behalf of the Department, assurance should be sought from the Department that additional future funding is likely to be made available to allow the GCRA to meet the increased liabilities and thus discharge its responsibilities under the relevant Laws
- The GCRA will inform the Department if it becomes apparent at any time that an overspend of revenue or capital expenditure is likely to occur.

C Expenditure

- The GCRA has the responsibility to demonstrate value for money; procurement of goods and services should, therefore, be based on value for money and appropriate procedures should be in place to show that a reasonable assessment against this criterion has been made.
- Contracts should be placed on a competitive basis unless there are convincing reasons to do otherwise. Tenders should be accepted from suppliers which represent best value overall.

D Timeliness in Paying Bills

- The GCRA should make all reasonable endeavours to collect receipts and pay properly authorised invoices in accordance with the terms of contracts or within 30 days.

E Combatting Fraud

- The GCRA must have effective internal controls to prevent and detect fraud or theft.
- All cases of attempted, suspected or proven fraud, irrespective of the amount involved, must be reported in writing to the Department as soon as they are discovered.
- The GCRA will be responsible for undertaking a prompt and vigorous investigation of any suspected, or actual, fraud and will inform the police. Legal and/or disciplinary action should be taken in all cases where it can be justified. Appropriate action must be taken to recover public funds and to ensure that the risk of similar fraud is minimised.

GUERNSEY COMPETITION AND REGULATORY AUTHORITY
CORPORATE GOVERNANCE GUIDELINES (CONTINUED)

F Staff

- The GCRA will be a responsible employer with up-to-date policies which comply with best practice.
- The GCRA will ensure that the creation of any additional posts does not incur forward commitments which will exceed its ability to pay for them within the resources that could reasonably be available.
- Subject to that proviso, the GCRA shall determine the numbers and grades of staff within the budget allocation for staff approved in the annual Business Plan, up to the maximum agreed by the States.
- In fixing annual pay increases, the GCRA will have regard to the States' pay policy on which staff cost of living increases contained in the grant will be based. It will ensure that such increases are affordable without detriment to the GCRA's overall budget and service provision.

G Banking

- The GCRA's accounting officer is responsible for ensuring its banking arrangements safeguard the public funds and the self-generated income which it handles.
- The Board is responsible for ensuring that there is in place an appropriate delegation of authority to spend and to authorise payments to permit the effective operation of the GCRA.
- The Board is responsible for the periodic review of the GCRA's banking arrangements to ensure that they represent value for money for the GCRA.
- The Board will ensure that there is appropriate practical segmentation of grant funds from general revenue funds or funding from other sources, and that grant funds are applied only for the purpose specified. For the avoidance of doubt, this provision does not require the GCRA to maintain a separate bank account for grant funds.

FINANCIAL STATEMENTS 2012

Consistent with prior years, the Jersey Competition Regulatory Authority (JCRA) made an accounting surplus of £1 in 2012, effectively breaking even. The laws under which the JCRA operates require that it accounts for income only in order to meet its actual costs during the year. It must also ensure that it receives enough income during the year in each of the three areas it covers – competition, telecoms regulation and postal regulation – to fund them separately, given that cross-subsidisation is not permitted. A working balance is maintained at all times but, for the purposes of the financial statements, deferred income adjustments are made to match income with costs.

Overall costs in 2012 decreased by £360k compared with 2011. Year on year consultancy fees were £144k (2011: £262k) reflecting, in part, the benefits of pan-Channel Island working which has given the organisation the ability to complete more projects in house and at a lower cost. Legal fees were £8k (2011: £213k). The level in 2011 was particularly high, reflecting the cost of defending an appeal against a telecoms decision.

The JCRA maintains strict internal guidelines with regard to purchasing and tendering procedures which, combined with appropriate corporate governance best practice, helps to ensure that it is run as an effective and efficient organisation. An audit of policies and procedures is undertaken each year by independent internal auditors to ensure that high standards are maintained.

In line with the service level agreement between the JCRA and the Economic Development Department (EDD), grant funding for work under the Competition (Jersey) Law 2005 continued to be received quarterly in advance. There was deferred grant income carried forward at the year end of £94,335 (2011: £148,758).

Income of £63k (2011: £84k) was received in the form of mergers and acquisitions fees. There was £12k (2011: £5k) of deferred income relating to applications for approval of mergers and acquisitions that were on-going at the year end.

There was one fine issued and paid during the year relating to an infringement of Article 8(1) of the Competition (Jersey) Law 2005. Although this fine was paid to the JCRA, as required by Article 39(7) of the Competition (Jersey) Law 2005, this was then paid on to the Treasurer of the States and was therefore not accounted for within the income and expenditure account as the JCRA merely acted as a collection agent.

At the year end there was deferred telecommunications licence fee income of £147k (2011: £132k). Based on budgeted costs, the Class III and Class II licence fees for 2012 were once again set at 0.75% of regulated turnover.

At the year end there was deferred postal licence fee income of £154k (2011: £5k). The high level of deferred income reflects the impact of the JCRA’s policy of rolling back regulation where it is appropriate to do so.

JERSEY COMPETITION REGULATORY AUTHORITY

(Incorporated in Jersey, Channel Islands)

NON EXECUTIVE MEMBERS

Mark Boleat	Chairman	
Richard Povey		
Philip Marsden		
Peter Neville		appointed 1 June 2012
Robert Foster		term ended 1 August 2012

EXECUTIVE MEMBERS

Andrew Riseley	Chief Executive	appointed 13 June 2012
Michael Byrne	Deputy Chief Executive	appointed 1 August 2012
Louise Read	Directors of Finance and Operations	appointed 1 August 2012
John Curran	Chief Executive	resigned 13 June 2012

SECRETARY

Louise Read

INDEPENDENT AUDITORS

Grant Thornton Limited
Kensington Chambers
46/50 Kensington Place
St Helier
Jersey
JE1 1ET

BANKERS

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PO Box 14
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Jersey
JE4 8NJ

REGISTERED OFFICE

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1-9 Union Street
St Helier
Jersey
JE2 3RF

JERSEY COMPETITION REGULATORY AUTHORITY
MEMBERS' REPORT

The Members of the Jersey Competition Regulatory Authority (JCRA) present their report and financial statements for the year ended 31 December 2012.

ACTIVITIES

The principal activities of the JCRA during the year were the regulation of the telecommunications and postal industries and the administration and enforcement of the Competition (Jersey) Law 2005.

RESULTS

There was a surplus for the year of £1 (2011: surplus £1).

MEMBERS

The Members in office when these financial statements were approved are shown on page 26.

INDEPENDENT AUDITORS

The auditors, Grant Thornton Ltd, who were appointed in accordance with Article 17 of the Competition Regulatory Authority (Jersey) Law 2001, have indicated their willingness to continue in office.

By order of the Members

Louise Read
Secretary
8 March 2013

JERSEY COMPETITION REGULATORY AUTHORITY
STATEMENT OF MEMBERS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Competition Regulatory Authority (Jersey) Law 2001 requires the members to prepare financial statements in accordance with generally accepted accounting principles which show a true and fair view of the surplus or deficit of the JCRA for the year and of the state of the JCRA's affairs at the end of the year.

In preparing financial statements the members are 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 presume that the JCRA will continue in operation; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The members are responsible for keeping accounting records which are sufficient to show and explain the JCRA's transactions and are such as to disclose with reasonable accuracy, at any time, the financial position of the JCRA and to enable them to ensure that the financial statements comply with the Competition Regulatory Authority (Jersey) Law 2001. They are also responsible for safeguarding the assets of the JCRA and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Members confirm that these financial statements comply with these requirements.

The Law also requires the JCRA's accounts to be audited annually by auditors appointed by the Minister for Treasury and Resources and the accounts to be submitted, together with the auditor's report to the Economic Development Department. The Economic Development Department, in turn, must submit the accounts and auditors report thereon to the States of Jersey.

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF JERSEY COMPETITION REGULATORY AUTHORITY

We have audited the financial statements of Jersey Competition Regulatory Authority for the year ended 31 December 2012 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice.

This report is made solely to the Authority's members, as a body, in accordance with Article 17 of the Competition Regulatory Authority (Jersey) Law 2001. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Members' Responsibilities on page 28 the Authority's members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Authority's affairs as at 31 December 2012 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Competition Regulatory Authority (Jersey) Law 2001.

For and on behalf of
Grant Thornton Limited
Chartered Accountants
St Helier, Jersey, Channel Islands

JERSEY COMPETITION REGULATORY AUTHORITY
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	*2012*	*2011*
		£	*£*
INCOME			
Licence fees		711,488	886,371
Economic Development Department grant		279,424	443,496
Mergers and acquisitions fees		63,333	84,220
Bank interest		727	940
Sundry income		10	20
		1,054,982	1,415,047
EXPENDITURE			
Salaries and staff costs		679,111	688,582
Consultancy fees		143,601	261,967
Operating lease rentals		64,953	64,450
Travel and entertainment		18,867	15,975
Conference and course fees		18,019	15,963
Depreciation		7,453	9,597
Administration expenses		18,626	14,404
Legal and professional fees		8,457	213,474
General expenses		23,399	32,188
Audit and accountancy fee		12,000	11,500
Advertising and publicity		17,604	15,812
Repairs and maintenance		20,930	33,385
Heat, light and water		3,017	3,971
Recruitment		18,944	33,778
		1,054,981	1,415,046
SURPLUS FOR THE YEAR	**5**	1	1

Recognised gains and losses
There are no recognised gains and losses other than the surplus of the JCRA of £1 in the years ended 31 December 2012 and 31 December 2011.

Historical cost equivalent
There is no difference between the net surplus for the year stated above and its historical cost equivalent.

Continuing Operations
All the items dealt with in arriving at the net surplus in the income and expenditure account relate to continuing operations.

The notes form an integral part of these financial statements.

JERSEY COMPETITION REGULATORY AUTHORITY
BALANCE SHEET
AS AT 31 DECEMBER 2012

	Notes	*2012* £	*2011* £
FIXED ASSETS			
Tangible assets	2	22,285	28,134
CURRENT ASSETS			
Debtors and prepayments	3	153,401	234,950
Cash at bank		466,525	233,177
		619,925	468,127
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	4	516,760	370,811
NET CURRENT ASSETS		103,165	97,316
TOTAL ASSETS LESS CURRENT LIABILITIES		125,451	125,450
RETAINED SURPLUS	5	125,451	125,450

The financial statements on pages 30 to 37 were approved by the members and signed on their behalf by:

Mark Boleat
Chairman
8 March 2013

The notes form an integral part of these financial statements.

JERSEY COMPETITION REGULATORY AUTHORITY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	*2012*	*2011*
		£	*£*
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES	6	234,225	(344,897)
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		727	940
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(1,604)	(6,321)
INCREAE / (DECREASE) IN CASH		233,348	(350,278)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2012	*2011*
	£	*£*
Increase / (Decrease) in cash in year	233,348	(350,278)
Cash used to increase liquid resources	-	-
Change in net funds	233,348	(350,278)
Net funds at 1 January	233,177	583,455
Net funds at 31 December	466,525	233,177

ANALYSIS OF NET FUNDS

	1 Jan 2012	*Cash flows*	*31 Dec 2012*
	£	*£*	*£*
Cash at bank	233,177	(66,652)	166,525
Current asset investments	-	300,000	300,000
Total	233,177	233,348	466,525

The notes form an integral part of these financial statements.

JERSEY COMPETITION REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention and in accordance with accounting principles generally accepted in Jersey, incorporating United Kingdom accounting standards.

A summary of the more important accounting policies is set out below

e) Interest receivable
Interest on bank deposits is accrued on a daily basis.

f) Fixed assets
Fixed assets are stated at cost less depreciation.

Depreciation is provided on all tangible fixed assets at rates calculated to write down their cost on a straight line basis to their estimated residual values over their expected useful lives. The depreciation rates used are as follows:

Leasehold improvements	– shorter of remaining length of lease or expected useful life
Computer equipment	– 33% per annum
Website	– 33% per annum
Fixtures and fittings	– 10% per annum
Other equipment	– 20% per annum

g) Leasing commitments
All leases are operating leases. Rentals payable under operating leases are charged in the income and expenditure account on a straight line basis over the lease term.

h) Pensions
The JCRA provides a defined contribution pension scheme. Contributions are charged in the income and expenditure account as they become payable in accordance with the rules of the scheme.

i) Grants
Grants received from the Economic Development Minister are accounted for in the period to which they relate. Any unused funds at the financial year end are either deferred or repaid to the Minister. Deferred grant income as at 31 December 2012 amounted to £94,334 (2011: £148,758).

j) Telecoms licence fees
Licence fees are set on the basis of cost recovery under Article 17 of the Telecommunications (Jersey) Law 2002. The JCRA's costs are determined on an annual basis and these are recovered by applying a percentage to the licensed revenues of the Operators on the basis of relevant pro-rata turnover, or if appropriate an annual fee. The percentage for 2012 was 0.75% (2011: 0.75%).

Fee income is recognised in the period to which it relates. Should fee income exceed costs, the balance is treated as deferred revenue. Deferred licence fee income as at 31 December 2012 amounted to £146,603 (2011: £132,245).

JERSEY COMPETITION REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

10. ACCOUNTING POLICIES – CONTINUED

k) Postal licence fees

Licence fees are set on the basis of cost recovery under Article 18 of the Postal Services (Jersey) Law 2004. The JCRA's costs are determined on an annual basis and these are recovered by applying a percentage to the licensed revenues of the Operators on the basis of relevant pro-rata turnover, or if appropriate an annual fee.

The fees for 2012 were set at £250,000 (2011: £250,000) for Jersey Post Limited equating to 0.9% of licensable revenue and £1,000 (2011: £1,000) for Class I Operators.

Fee income is recognised in the period to which it relates. Should fee income exceed costs, the balance is treated as deferred revenue. Deferred licence fee income as at 31 December 2012 amounted to £153,754 (2011: £4,806).

l) Taxation

Article 16 of the Competition Regulatory Authority (Jersey) Law 2001 provides that the income of the JCRA shall not be liable to income tax under the Income Tax (Jersey) Law 1961.

m) Expenditure

Expenditure is accounted for on an accruals basis.

2. TANGIBLE FIXED ASSETS

	Leasehold improvements £	*Computer equipment* £	*Website* £	*Fixtures and fittings* £	*Other equipment* £	*Total* £
Cost						
At 1 January 2012	35,093	75,984	-	21,415	3,936	136,428
Transfers	-	(4,125)	4,125	-	-	-
Additions	1,296	-	-	308	-	1,604
Disposals	(445)	(4,230)	-	-	-	(4,675)
At 31 December 2012	35,944	67,629	4,125	21,723	3,936	133,357
Depreciation						
At 1 January 2012	17,192	71,326	-	16,062	3,714	108,294
Transfers	-	(454)	454	-	-	-
Charge in the year	4,283	502	1,361	1,249	58	7,453
Disposals	(445)	(4,230)	-	-	-	(4,675)
At 31 December 2012	21,030	67,144	1,815	17,311	3,772	111,072
Net book value:						
At 31 December 2012	14,914	485	2,310	4,412	164	22,285
At 31 December 2011	17,901	4,658	-	5,353	222	28,134

JERSEY COMPETITION REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

3. DEBTORS AND PREPAYMENTS

	2012 £	*2011* £
Prepayments	40,913	37,323
Trade debtors	111,332	194,188
Sundry debtors	1,156	3,439
	153,401	234,950

4. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £	*2011* £
Accruals	23,190	52,389
Deferred grant income	94,335	148,758
Deferred licence fee income	300,357	137,051
Other deferred income	11,667	5,000
Trade creditors	77,080	20,876
Social security	10,131	6,737
	516,760	370,811

5. MOVEMENT ON RETAINED SURPLUS

	2012 £	*2011* £
Income and Expenditure Account		
At 1 January	125,450	125,449
Surplus for the year	1	1
At 31 December	125,451	125,450

6. NOTE TO THE CASH FLOW STATEMENT

Reconciliation of surplus for the year to net cash inflow / (outflow) from operating activities:

	2012 £	*2011* £
Operating surplus	1	1
Depreciation	7,453	9,597
Interest on current asset investments	(727)	(940)
Decrease in debtors	81,549	96,335
Increase / (Decrease) in creditors	145,949	(449,890)
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES	234,225	(344,897)

JERSEY COMPETITION REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

7. RELATED PARTIES

a) The transacting parties are:
- The Economic Development Minister
- Jersey Competition Regulatory Authority (JCRA)

Relationship
The JCRA acts independently of the States, but is accountable to the Economic Development Minister in respect of its funding for the administration and enforcement of the Competition (Jersey) Law 2005 which is also covered by a Service Level Agreement. The Minister acts as a conduit for requests from other Ministers who may request the JCRA to carry out projects. The JCRA reports formally to the Minister on an annual basis.

Transactions
In 2012, the Economic Development Minister provided funds to the JCRA to finance the administration and enforcement of the Competition (Jersey) Law 2005.

Amounts involved
- £148,758 brought forward as deferred grant income, as agreed from 2011
- £300,000 received during the year under the provisions of the Competition Regulatory Authority (Jersey) Law 2001

Amounts due to the Economic Development Department at the balance sheet date

	2012	*2011*
	£	£
Deferred grant income (included in creditors)	94,335	148,758

b) The transacting parties are:
- Guernsey Competition and Regulatory Authority (GCRA)
- Jersey Competition Regulatory Authority (JCRA)

Relationship
The JCRA and the GCRA work together under the aegis of the Channel Islands Competition and Regulatory Authorities (CICRA) sharing a board, resources and expertise between the islands whilst retaining their own separate legal identities.

Transactions
The JCRA and GCRA share resources and expertise and recharge each other for expenses (including staff costs) on a no gain no loss basis.

Amounts involved
- £232,282 invoiced during 2012 by the GCRA to the JCRA
- £78,376 invoiced during 2012 by the JCRA to the GCRA

Amounts due to and from the Guernsey Competition and Regulatory Authority at the balance sheet date

	2012	*2011*
	£	£
Amounts due to the JCRA from the GCRA	11,788	1,789
Amounts due by the JCRA to the GCRA	41,741	264

JERSEY COMPETITION REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

8. FINANCIAL COMMITMENTS

At 31 December 2012 the JCRA had annual commitments under non-cancellable operating leases as set out below:

	Buildings	
	2012	*2011*
	£	£
Operating leases which expire:		
Not later than one year	-	-
In more than one year but less than five years	53,886	53,886
Later than five years	-	-
	53,886	53,886

9. PENSION COMMITMENTS

The JCRA provides a defined contribution pension scheme (the Public Employees Contributory Retirement Scheme) for its employees. The assets of the scheme are held separately from those of the JCRA in an independently administered fund. Contributions of £62,268 (2011: £67,509) were charged in the year. There were no unpaid contributions at the year end.

JERSEY COMPETITION REGULATORY AUTHORITY
CORPORATE GOVERNANCE GUIDELINES

The JCRA and the Economic Development Minister (the Minister)

The JCRA is an autonomous body and entirely independent in its decision taking from the States of Jersey. But under powers of the Competition Regulatory Authority (Jersey) Law 2001 (the CRA Law), Article 10(1) the Minister, "may give to the Authority written guidance, or general written directions, on matters relating to corporate governance, that is relating to the systems and arrangements by and under which the Authority is directed and controlled". The following are the Corporate Governance Guidelines as agreed between the Minister and the JCRA.

What is Corporate Governance?

"Corporate Governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance." – OECD April 1999

Constitution of the JCRA

The JCRA is a statutory body corporate established under Article 2 of the CRA Law. The governing body is a Board of Members which directs regulatory, licensing, financial operational and strategic policies of the JCRA.

Functions of the JCRA

The functions of the JCRA are set out in Article 6 of the CRA Law which states:-

a) The JCRA shall have such functions as are conferred on it by or under this or any other Law or any other enactment.
b) The JCRA may recognise or establish, or assist or encourage the establishment of, bodies that have expertise in, or represent persons having interests in, any matter concerning competition, monopolies, utilities or any matter connected with the provision of goods and services to which the JCRA's functions relate.
c) The functions of those bodies shall include one or more of the following –
    i. the provision to the JCRA of advice, information and proposals in relation to any one or more of those matters;
    ii. the representation of the views of any one or more of those persons.
d) The JCRA may, on request by the Minister, provide the Minister with reports, advice, assistance and information in relation to any matter referred to in paragraph (b).
e) The JCRA shall have power to do anything that is calculated to facilitate, or is incidental or conducive to, the performance of any of its functions.

Constitution of the Board

Article 3 of the CRA Law requires the Board to consist of a Chairman and at least two other members.

The appointment of Board Members is undertaken by the Minister. Vacancies which arise on the Board are filled through the use of an open and transparent process. The Minister follows the procedures recommended by the Jersey Appointments Commission – a body set up by the States of Jersey to overview all public sector appointments. A vacancy is usually advertised and once a suitable candidate is identified, a recommendation is made to the Minister.

JERSEY COMPETITION REGULATORY AUTHORITY
CORPORATE GOVERNANCE GUIDELINES (CONTINUED)

Under the provisions of the CRA Law, the appointment of the Chairman is a matter reserved for decision by the States of Jersey on the recommendation of the Minister. The other Board Members are appointed by the Minister after it has consulted with the Chairman. The Minister must notify the States of the appointments.

On appointment, a Member will receive an induction to the work of the Board and the JCRA. This includes an opportunity to meet all members of staff.

Under the provisions of the CRA Law, Members are appointed for terms not exceeding five years and upon expiry of such period are eligible for reappointment.

Operations of the Board

The Board sets strategic policy and the implementation of these policies is undertaken by the Executive.

The Board usually meets at least monthly or bi-monthly and holds additional meetings when circumstances require it. In advance of each meeting, Members are provided with comprehensive briefing papers on the items under consideration. The Board is supported by the Board Secretary who attends and minutes all meetings of the Board. During 2012 the Board met ten times.

The quorate number of Members to hold a Board meeting is three, two of which must be Non-Executives, with one acting as Chair.

Article 9 of the CRA Law empowers the Board to delegate any of its powers to the Chairman, one or more Members, or an officer or employee of the JCRA or a committee whose member or members are drawn only from the Members, officers and employees of the JCRA. However, the Board is not authorised to delegate the power of delegation or the function of reviewing any of its decisions.

The Board maintains a strategic plan and annual budget which is prepared in the last quarter of each year and incorporates, amongst other things, any strategic issues raised by the Board at its annual away day, and comments received during public consultation. This is considered by the Board prior to the start of the financial year.

The Board monitors the performance of the JCRA against the strategic plan and annual budget through reports at its regular Board meetings. Performance against budget is monitored by the presentation of quarterly management accounts to the Board and ad-hoc financial presentations as and when appropriate.

The JCRA has agreed a policy on travel with the Economic Development Department.

The Chief Executive makes recommendations to the Minister in respect of fees paid to the Non- Executive Board members.

Committees of the Board

Article 7(1) of the CRA Law enables the JCRA to establish committees.

During 2012 the Board had established one committee; an Audit and Risk Committee. The members of this committee are selected from the Non-Executive Directors and are appointed by the Board.

JERSEY COMPETITION REGULATORY AUTHORITY
CORPORATE GOVERNANCE GUIDELINES (CONTINUED)

The key duties of the Audit and Risk Committee are:-

- To review annually the JCRA's application of corporate governance best practice;
- To review the mechanisms for ensuring the effectiveness of the JCRA's internal controls;
- To review and agree the internal auditor's annual work plan, monitor and review the effectiveness of any internal audit work carried out and review all reports from the internal auditors, monitoring the Executive's responsiveness to the findings and recommendations.
- To meet with the internal auditors at least once a year, without the presence of the Executive.
- To consider certain matters relating to the external audit of the JCRA's annual financial statements (including reviewing those financial statements prior to their consideration by the Board).

Whilst the Audit and Risk Committee's Charter includes the consideration of the annual appointment of the external auditor, the actual appointment of the auditor is a matter reserved to the Treasury and Resources Minister under Article 17 of the CRA Law.

The members of the Audit and Risk Committee at 31 December 2012 were Peter Neville (Chairman), Richard Povey and Philip Marsden. The Chief Executive is expected to attend the meetings of the Audit and Risk Committee in an advisory capacity.

Openness, Integrity and Accountability

The JCRA abides by the principles of openness, integrity and accountability – and those standards which are widely recognised as being applicable to public service, and to the conduct of all involved in public life. In the discharge of its duties, the JCRA will ensure:

- That subject to the appropriate level of confidentiality, it maintains an openness in its public affairs, in order that the public can have confidence in the decision-making processes and actions of public service bodies, in the management of the JCRA's activities, and in the Board Members and staff of the JCRA itself;
- That it maintains at all times an appropriate degree of integrity in the conduct of its affairs. Integrity comprises both straightforward dealing and completeness. The JCRA bases its integrity upon honesty, selflessness and objectivity, and high standards of propriety and probity in the stewardship of its funds and management of its affairs;
- That it is fully accountable in the application of the public funds and that these are properly safeguarded, and are used economically, efficiently and effectively.

The three fundamental principles, defined above in terms of public sector bodies, have been refined to include the findings and recommendations of the Nolan Committee on Standards in Public Life. The JCRA will make its best efforts to abide by Nolan's seven general principles that underpin public life, namely: selflessness, integrity, objectivity, accountability, openness, honesty, and leadership.

Audit and Accounts

While the JCRA is an independent body, it is accountable for its overall performance to the States of Jersey through the Minister.

Article 17 of the CRA Law requires that the JCRA shall keep proper accounts and proper records in relation to the accounts and prepares a report and financial statements in respect of each financial year and provide these to the Minister no later than four months after the year end. The Minister must lay a copy of the financial statements provided before the States as soon as practicable after he receives the report.

It is also a requirement of the CRA Law that the financial statements are audited by auditors appointed by the Treasury and Resources Minister and that they are prepared in accordance with generally accepted accounting principles.

JERSEY COMPETITION REGULATORY AUTHORITY
CORPORATE GOVERNANCE GUIDELINES (CONTINUED)

Other Matters

Under powers granted by Article 10 of the CRA Law, the Minister may, after first consulting with the JCRA and where it considers that it is necessary in the public interest to do so, give the JCRA written guidance, or general written directions, on matters relating to corporate governance which may include matters relating to accountability, efficiency and economy of operation of the JCRA.