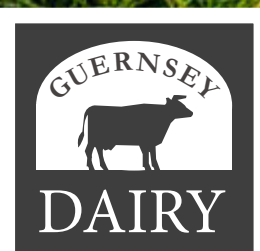


The background of the cover is a photograph of three brown and white Guernsey cows in a lush green field. In the background, a stone church with a tall, pointed spire is visible through the trees. The scene is bathed in warm, golden light, suggesting late afternoon or early morning. A dark grey rectangular box is positioned in the upper right quadrant, containing the title text.

GUERNSEY DAIRY **2022 Business Plan**



GOOD FOR YOU, GOOD FOR GUERNSEY

This business plan provides strategic direction for our management, staff, and the Guernsey Dairy Management Board (DMB). It will act as a guide in setting policy and operational priorities that are aimed at making the business more focused and efficient.

This plan will be updated annually to reflect progress and capture new challenges and opportunities for our business and for the wider economy.



Why we are here

The principal reason for the Guernsey Dairy (the Dairy) is to act as an enabler to Guernsey's dairy industry and, in doing so, support the conservation of our unique rural environment, enhance biodiversity, uphold the genetic integrity of the Guernsey breed.

The processing of milk at the States owned Dairy and the sale of liquid milk and milk-products is the financial mechanism that facilitates the continuance of the dairy farming industry designed to maintain Guernsey's traditional countryside.

Political, Strategic and Operational Context

The Committee for the Environment & Infrastructure (CfE&I) is responsible for setting the policy in relation to agriculture and the wider dairy industry. Milk production remains the most important farm enterprise in Guernsey, of the 15,250 verges of agricultural land, dairy farmers use some 8,000 verges. There are currently 12 farms on the island with approximately 1,350 milking cows producing c. 7.6 million litres of liquid milk per annum.

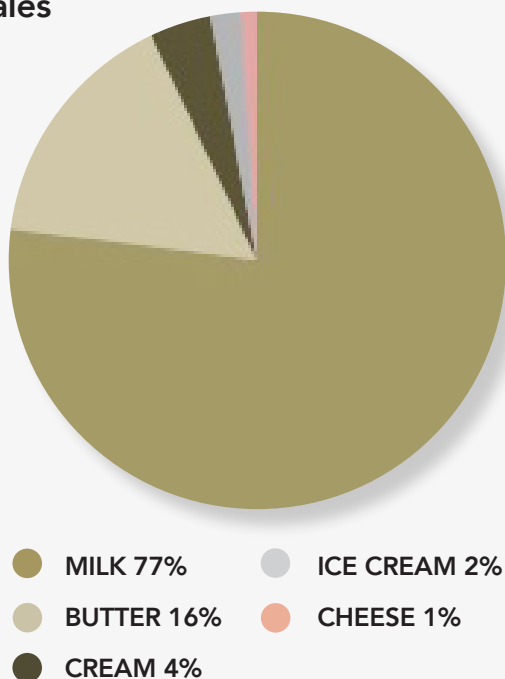
The States' Trading Supervisory Board (STSB) has operational responsibility for the Dairy, including ensuring it operates as efficiently as possible in the best long-term interests of islanders. In particular, as a sole supplier, to satisfy the local demand for processed fresh Guernsey milk at an acceptable price to the consumer.

Products and Services

The Dairy sells approximately 5.8 million litres of milk which are consumed by over 60,000 people who regularly enjoy the benefits of drinking fresh locally produced liquid milk. Milk is the core function of the business with sales accounting for 77% of annual revenue. Whilst the annual trend for sales of liquid milk has been generally downwards caused partly by the popularity of plant-based milk alternatives, Guernsey Dairy has seen sales of liquid milk increase 1.2% year on year in 2021. This has been due to a variety of factors: the lockdowns, the introduction of lactose-free milk and the teams' marketing initiatives.

In addition to supplying the island with fresh liquid milk, the Dairy produces a range of milk products. Milk product sales make a small contribution with varying degrees of profitability; however, they support the Dairy's overall financial performance by utilising the surplus milk and cream from milk production in times of over-supply. It should be noted, however, that without the corresponding sale of liquid milk, milk derived products do not make a positive gross margin as only the cream component of the milk is utilised.

Sales



Who benefits from the Dairy's operation?

The island as a whole benefits from the Dairy's operation. Guernsey is divided into more than 3,000 small fields of Celtic design. These remain largely unchanged and continue to contribute to the unique characteristics of the island as well as its biodiversity which is enhanced by farmers working to biodiversity plans.

A contribution to the local economy is made by purchasing fresh Guernsey milk. Each litre purchased helps to preserve the Guernsey countryside, its traditional farming heritage and protect the iconic Guernsey cattle breed.

A Guernsey Dairy customer survey, December 2019, confirmed that: **83%** of people feel strongly or very strongly that Guernsey milk should continue to be produced by the island. **85%** agree that the quality of Guernsey Dairy milk is excellent. **81%** agree that supporting the Guernsey Dairy industry is essential to the maintenance of the Guernsey Dairy cattle breed.

Current Challenges facing the Guernsey Dairy

There are some important challenges facing the Guernsey Dairy currently that this business plan aims to address in the medium term.

The current tensions can be distilled as follows:

- The Dairy is obliged to accept all suitable milk produced by local farmers as expressed within individual farm supply agreements specifying volumes, prices, and quality standards. This equates to approximately 7,600,000 litres per annum.
- The farmers themselves need levels of income to survive as sustainable businesses and deliver the community benefits as outlined in this document. Increasing feed and fertiliser prices will be a major contributory factor in rising farm costs and milk prices in 2022.
- The Dairy currently requires approximately 7,200,000 litres to meet its requirements to fulfil the demand for fresh liquid milk, however the key to this is establishing an even supply over a rolling 12-month period.
- The Dairy can only make trading surpluses if the liquid milk component is sold at full value to consumers.
- The price of liquid milk charged to consumers cannot be raised significantly without affecting sales volumes.

To resolve these tensions the Dairy should:

Arrest the decline of local liquid milk sales whilst seeking new sales opportunities.

- Build on the success of the Dairy's 2021 marketing strategy to focus on feel-good PR and/or advertising campaigns to promote and support new approaches to adding value to milk and milk-derived products.
 - Improve messaging about the dairy industry: collaboration with the Health Improvement Commission, promoting community vitality, sustainability, food miles, conservation, and centre of excellence of the breed. Continue to develop campaigns that are more appealing and relevant to younger consumers.
 - Maximise the value of the current packaging by using it for Dairy marketing messages.
 - Improve engagement with stakeholders e.g., retail outlets, trade account holders and the hospitality sector.
 - Continue to encourage support and appreciation of the dairy industry through education, farm and dairy tours, school visits and social media campaigns.
- Support the GFA in maintaining RSPCA Farm Assured compliance on all local dairy farms.
- Support the CftE&I to establish a transition to LEAF scheme (linking environment and farming).
- Agree a transitional period in establishing island herds to 100% A2/A2 status.

Reduce the amount of liquid milk received from farmers whilst recognising the sustainability of farm businesses.

- Agree a strategy with farmers to even out the supply curve by adopting a more flexible approach to Farm Output Target's by aligning supply with demand over a rolling 12-month period whilst maintaining continuity of supply to meet local demand. To achieve this the Dairy will support the GFA in transferring calving patterns to the autumn.
- Develop a mechanism for the reallocation of contract literage to farmers after either an exit from the industry or a desire to reduce their contract literage. This mechanism should also include the possibility of a farmer wishing to grow and develop its business.
- Improve the financial stability of farms by lengthening the term of the Dairy Supply Agreements.
- Support the CftE&I in reviewing the Dairy Farm Management Payment (DFMP) system designed to support individual farm action biodiversity plans.



The Guernsey Dairy survey highlighted that **77%** agree that supporting the dairy industry is essential to the maintenance of the island's traditional, and familiar, rural landscape, but only **18%** agree that Guernsey Dairy does enough to promote the understanding of Guernsey's farming heritage and the Guernsey dairy cattle breed (**49%** disagree).

Remodel the operations at the Dairy to become more commercially successful allowing the Dairy to continue to pay farmers a sustainable price per litre of milk without raising the cost of milk to the consumer.

- Improve the participation rate for the annual Farm Cost Survey and the quality of data with a proposal that the Dairy and the GFA adopt a more collaborative approach.
- Undertake regular benchmarking exercises and maintain open dialogue with stakeholder groups in reviewing gate prices, products, and packaging nomenclature.
- Establish the protocols for Residue Testing by working with the CftE&I with a view to reducing sampling practices and cost.
- Establish ways to reduce the effects of 'residual waste' by finding alternative uses and markets for surplus milk, cheese whey and / or 'fatless' milk.
- Increase the profitability of the export market by increasing prices to reflect the costs of freight, storage, and account management.
- Investigate changes to increase the profitability of milk derived products.
- Work on efficiency targets in particular
 - energy consumption
 - water usage
 - material and resource planning
 - transport optimisation
 - packaging
- Share knowledge and resources within the Trading Group.
- Invest in new equipment if it generates 'quick win' revenue savings e.g., a reduction of downtime, less wastage.
 - Any investment in equipment must be compatible and transferable with the future Guernsey Dairy project.
 - Apply a capital prioritisation process to target resources into appropriate tasks and to prioritise effort and expenditure into key areas of investment that will produce maximum gain and benefit to the business.
- Deliver the Dairy's Outline Business Case and policy letter for either a new-build Dairy or extensive reinvestment of the existing facilities.

Outcomes:

- The Board aims to achieve cost savings or efficiency benefits of £20k (in addition to the £137k delivered in 2021) before the end of 2022 to assist in providing continuity of supply, a safe facility and to pay back short-term funding that has been secured for urgent capital items.
- The Board supports farming businesses by: paying a sustainable price per litre of milk; evening out the supply curve by adopting a more flexible approach to FOT's and managing the steady decline in the annual supply of raw milk - aimed at 7.2M litres - while maintaining a financially sustainable dairy farming industry.
- The Board supports the marketing strategy that sets out a plan to steady the decline and grow the consumption of cow's milk and reposition the Dairy's products as high value, healthy and sustaining both heritage and biodiversity messages.
- The Board supports the Future Dairy Project for a newly built or redeveloped Dairy and will support the re-categorisation of the project to 'delivery' stage and secure necessary funding required to progress design and Full Business Case development work.