



ANNUAL REPORT 2011

FOREWORD

This is the eleventh annual report of the Jersey Competition Regulatory Authority (JCRA).

This report is compiled by the JCRA and presented to the Economic Development Minister, pursuant to Articles 17 and 18 of the Competition Regulatory Authority (Jersey) Law 2001. This report also fulfils the requirements of Article 59 of the Telecommunications (Jersey) Law 2002, and Article 13 of the Postal Services (Jersey) Law 2004, each of which require the JCRA to publish an Annual Report in respect of each financial year surveying relevant developments, and reviewing competition in, and restrictions on, the supply of telecommunications and postal services in Jersey.

What is the JCRA?

The JCRA was established by the States of Jersey in 2001 as an independent body, accountable to the Economic Development Committee (the functions of which have now been transferred to the Economic Development Minister), with the primary mission being to promote consumer welfare through competition and to consider measures that encourage lower prices and greater choice and innovation in the goods and services available in Jersey. The work of the JCRA is expected to contribute to Jersey's long-term economic growth and competitiveness.

Our functions

Competition

The JCRA is responsible for administering and enforcing the Competition (Jersey) Law 2005. The aim of this law 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

We can be called on to advise the Economic Development Minister on matters of economic regulation and competition. For example, in 2011 we published a report prepared at the Minister's request on Jersey's motor fuels sector.

Economic regulation

In common with many jurisdictions in the European Union, and further afield, the States of Jersey has 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 (Jersey Telecom Limited) and Jersey Post (Jersey Post Limited) respectively. The States also decided to withdraw, upon incorporation, the statutory monopolies, which JT and Jersey Post had previously enjoyed, to allow for competition in these sectors.

The JCRA was given the task of ensuring that, in so far as it is reasonably practicable, all current and prospective demands for services are met, while promoting competition where appropriate. This is achieved through the conditions of the licences granted, which the JCRA has a statutory responsibility to enforce.

Who we are

The JCRA is managed by a board consisting of a chairman, an executive director, and three non-executive directors. The staff currently comprises a deputy executive director, two case managers, a finance and operations manager and a personal assistant.

More information on the JCRA and its activities may be found on the website www.cicra.je or at Jersey Competition Regulatory Authority, 2nd Floor, Salisbury House, 1-9 Union Street, St Helier, Jersey, Channel Islands, JE2 3RF. Tel: +44 (0)1534 514990 Fax: +44 (0)1534 514991. Email: info@cicra.je

CHAIRMAN'S STATEMENT



In my statement last year I reported on a period of substantial change in the board and management of the JCRA. I had taken on the chairmanship in April 2010, Philip Marsden succeeded Chris Bright as a member of the board in August, and John Curran succeeded Chuck Webb as Executive Director in August, combining this appointment with heading Guernsey's Office of Utility Regulation (OUR). John's appointment marked a step change in the level of co-operation between Jersey and Guernsey in this area. In 2011 there were no changes in the board membership. However, in July we welcomed Andrew Riseley to the new position of Deputy Executive Director. Andrew has substantial experience of both regulation and competition law and has proved an excellent addition to the JCRA team. Andrew's arrival was particularly timely as in a six month period we had lost three of the professional staff, through a combination of illness and people moving on.

The JCRA and OUR staff now work as a single team, giving both regulators the advantage of a larger group of professional staff, allowing greater specialization, and providing back-up where needed.

Internally, the increasing integration of the JCRA and OUR staff, assisted by the installation of a combined IT system, was the main feature of the year. Work also began on the next stage of integration. The OUR has operated without a board, responsibility resting entirely with the Director General. The Guernsey authorities have recognised that this is not ideal, and as part of a reform to their regulatory arrangements, including the introduction of Competition Law, decided to move to the more common board/chief executive structure. This has provided an opportunity for the two islands to share a board as well as a chief executive. Agreement in principle has been reached on this and in practice the JCRA board began to act a "shadow board" for the OUR at the end of 2011, culminating in the publication of a strategic plan covering both authorities. It is anticipated that this arrangement will be formalised during 2012. As part of this process a Guernsey-based board member will be recruited, succeeding Robert Foster who will retire in August 2012.

Given the financial constraints on both islands it is worth noting that the sharing of a board, staff and IT and other facilities is leading to annual savings to the JCRA of approximately £100,000, or 7% of its total operating costs. It has also led to a significant increase in efficiency and effectiveness. There tends to be undue emphasis in the public policy debate on laws, and it is perhaps worth noting here that all these arrangements have entailed no change in legislation in Jersey, and indeed no change in Guernsey that would not otherwise have occurred anyway. If legislative change had been needed, the new arrangements would simply not have occurred. The relevant ministers in the two islands, Alan Maclean in Jersey and Carla McNulty Bauer in Guernsey, and their ministerial colleagues, have been fully supportive of the changes and their support has been greatly appreciated.

Last year I also commented on the decision to change the emphasis of our competition work away from mergers and acquisitions and towards local markets, which are not working in the best interests of consumers. This decision has been implemented effectively, as the Executive Director's report demonstrates. There is, rightly, ever increasing expectations of boards, whether of private companies, third sector bodies or public agencies such as the JCRA. The JCRA board believes that it is fully meeting those expectations, and places great emphasis on board effectiveness as well as probity and transparency. But to be effective boards must also be rewarding for the members – not primarily in the financial sense, but rather in terms of intellectual stimulation and the pleasure that comes from knowing that board meetings are both effective and enjoyable. The JCRA board scores highly in respect – and perhaps in passing this is partly a credit to

Ministers for recognising what sort of board the JCRA needs and to the Jersey Appointments Commission for the procedures that it has put in place. So my thanks to the three non-executive directors, Robert Foster, Dick Povey and Philip Marsden, for the huge contribution that they have made. John Curran has managed the team superbly and is now a frequent flyer between Jersey and Guernsey, and Andrew Riseley has been a very welcome addition to the team. In a year of significant staff change particular thanks to those who have provided much needed continuity, Kerstee Norris, Paul Hamilton and Helen Rubber, and the Head of Finance and Administration, Louise Read, who has managed the Jersey/Guernsey integration and significant staff changes in an exemplary way.



Mark Boleat
Chairman

EXECUTIVE DIRECTOR'S REPORT



During 2011, the JCRA has cemented its aim to work more closely with Guernsey to ensure we continue to deliver a targeted and focused approach to the regulation of the utilities and competition law enforcement in Jersey, for the benefit of consumers. In December 2010, the JCRA signed a formal Memorandum of Understanding with the OUR, and during 2011 we took a number of steps to further deepen the co-operation with the OUR. These included the development of a common website for the Channel Island Competition and Regulatory Authorities (www.cicra.je) and a common information technology platform for the two offices.

We have looked to ensure we maximise the combined resources of the two offices by having pan-Channel Island teams work on projects, and seeking opportunities to increase the number of projects we undertake on a pan-Channel Island basis. All of these initiatives are designed to reduce the cost to the licensed utility companies and the States of Jersey, upon whom we rely for funding, and to increase our effectiveness. The overall staff headcount across the two offices has reduced as a result of this initiative.

Post

The postal sector in Jersey faced an incredibly challenging year in 2011. In the March 2011 UK Budget a reduction in the level of the Low Value Consignment Relief (LVCR) was announced; in November 2011 LVCR was abolished. The UK High Court upheld the abolition of LVCR after both Guernsey and Jersey challenged the decision. We are starting to see the impact of this with job losses announced by various fulfilment businesses in the island. The impact will be felt well beyond the postal sector, as the fulfilment industry is a key part of the diversified economy in Jersey.

In the circumstances, the efforts by Jersey Post to address its cost base are particularly important in the context of a sustainable and affordable postal service for islanders. During 2011, at the request of the Minister for Economic Development, the JCRA undertook a detailed review of the postal market. The outcome of this review, which was published in January 2012, will help inform the JCRA's future regulatory work for the postal sector. We have already licensed two additional postal operators to support the fulfilment industry in markets outside the UK. We have also announced that we will not be considering any further applications for licences, or any further liberalisation of the postal sector, until 2015. During 2011, we also

finalised our review of the universal service obligation (USO) and have agreed to Jersey Post's request to reduce its deliveries from six to five days per week. While we don't believe there is currently a need to review the level of the USO, this may be something which requires review at a later point, depending on how postal volumes and consumers' needs change.

Competition law

A key objective for the JCRA in 2011 was to reform our approach to competition work, including a review of the merger regime, and also an increased use of market studies into various sectors of the economy.

During 2011 we reviewed the merger regime in Jersey. We recognised that some of our previous work in this area was less targeted than was perhaps needed by Jersey consumers. Following a detailed review, in May 2011 we invited consultation on the revised proposals. Reacting to the responses, we made further changes to the proposals and have asked the Economic Development Department (EDD) to implement the necessary legislative changes needed to give effect to the new regime. We believe the new proposals, which will see the greatest effort placed on those mergers which more directly affect Jersey consumers, will allow us to be more focused in our work, make it easier for local businesses to understand the merger regime, and also help promote a pan-Channel Island approach to merger reviews, once the competition law is introduced in Guernsey.

A further benefit of changing our approach to mergers is that it frees up some of our resources to undertake more market studies. Our market studies work will play an increasingly important role in protecting Jersey consumers, and making sure they get a fair deal. During 2011, we undertook work on the road fuels and home heating oil markets, along with following up the work previously undertaken on school uniforms and taxis. In each case we identified areas where we believe change is required, in order to ensure consumers get the best deal possible. We are pleased that, following our work on road fuels, the States of Jersey agreed to implement legislation making it a requirement that fuel prices are clearly displayed at fuel forecourts, to help consumers make informed choices. We also believe the changes we have recommended to the way in which the taxi industry is regulated should be implemented in a way that puts consumers first.

We continue to process a steady stream of mergers and in 2011, imposed a fine on a firm for failing to notify a merger to the JCRA. While financial penalties are still rare in Jersey we will be looking to increase our competition law enforcement work going forward, as we have concerns that certain practices, which are prohibited by the competition law, continue in Jersey to the detriment of consumers.

We will also look to ensure, along with the OUR in Guernsey, that the competition law regime supports our aim of having a pan-Channel Island approach to competition law enforcement. We have worked closely with Guernsey to ensure its competition law, which will be enacted in 2012, is as closely aligned with Jersey as possible.

Telecoms

Our work in telecoms is increasingly focused on pan-Channel Island projects. The two main projects, aimed at getting more competition and better services for consumers, are the Wholesale Access Project, designed to give fixed line customers a choice of providers, and our work on allocating spectrum in the 800MHz and 2.6GHz bands. Both of these projects will continue during 2012.

The timing of when this spectrum might be awarded was delayed in 2011 due to a legal challenge to our proposals to review how the 2.6GHz spectrum should be allocated. While regrettably the JCRA was unsuccessful in our defence of that legal challenge, the judgement of the Royal Court has helpfully provided clarity on the route forward.

We recognise that there remains a significant frustration within the telecoms industry in Jersey over the lack of audited separated accounts from JT. Our discussions with JT to address this issue continue. We aim to ensure fit-for-purpose separated accounts are available to the market, as soon as possible. We remain of the view that the absence of separated accounts potentially results in consumers paying more for services than might otherwise be the case. We have reviewed JT's interconnection charges, and we will look to see reductions in these charges in the near future. We undertook a number of investigations of certain JT broadband charges, resulting in significant reductions in these prices. As a result, the cost of changing broadband service provider is less of a barrier to changing than was previously the case. We intend to increase our work in this area in 2012, as our price bench-marking with Guernsey shows that, across a range of commonly used residential and business services, consumers in Jersey pay higher charges and we wish to understand why that is so.

Going Forward

We will continue to focus on increasing our pan-Channel Island approach to regulation and competition. The changes due to be implemented in Guernsey, which will see the JCRA and the OUR share a common board, will build upon the progress we have already made. We will look to further improve how we deliver the regulatory model in Jersey, to ensure we improve our effectiveness and efficiency. The JCRA has a small number of staff who work extremely hard and diligently on behalf of consumers across the Jersey. I would also like to add my personal thanks to the board and staff of the JCRA for their support during 2011.

A handwritten signature in black ink, appearing to read 'John Curran', with a stylized flourish at the end.

John Curran
Executive Director

Board Members

Mark Boleat - Chairman

Appointed 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. 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.



John Curran – Executive Director

Appointed in September 2010, John is also the Director General of the Office of Utility Regulation (OUR) in Guernsey, a post to which he was first appointed in January 2005. He previously worked with the OUR since 2003 as Director of Regulation. He has extensive experience in regulation having previously worked with Telstra, the Australian telecoms incumbent, and with the Commission for Communications Regulation (Comreg) in Dublin. He started his career with the Irish Civil Service having studied Electronic Engineering at Galway Institute of Technology and also holds a Diploma in Company Direction from the IoD.

Robert Foster – Non-Executive Director

Robert was appointed a Non-Executive Director of the JCRA in August 2004 and was re-appointed in August 2007 and August 2010. He is a Commissioner of the National Lottery Commission and was Chair of the project board overseeing the award of the third licence for the UK national lottery. He is also a Non-Executive Director, and Vice-Chair, of King's College Hospital NHS Trust in London, a Governor of Guy's and St Thomas' NHS Foundation Trust, and a member of the advisory council of a venture capital company, Oxford Capital Partners. He was Chief Executive of the UK Competition Commission from 2000 to 2004. He is a Chartered Engineer and was previously an engineering manager in the electronics and telecommunications industries. Subsequently he was a senior civil servant in the Cabinet Office and Department of Trade and Industry and responsible for innovation policy.



Richard Povey – Non-Executive Director

Richard was appointed a Non-Executive Director of the JCRA in May 2005 and was re-appointed in May 2008 and May 2011. He 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 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 a 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.



JCRA FINANCIAL STATEMENTS 2011

Consistent with prior years, the Jersey Competition Regulatory Authority made an accounting surplus of £1 in 2011, 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 2011 increased by £301,580 compared with 2010. The main increases were in consultancy £175,896 principally telecoms regulatory projects, and legal and professional fees £194,351 principally in relation to a judicial review heard during the year. Expenditure continues to be closely controlled and during the year substantial cost savings were made in several areas notably staff and salary costs totalling £90,333.

The JCRA maintains 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 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 £148,758 (2010: £291,255).

Income of £84,220 (2010: £102,415) was received in the form of mergers and acquisitions fees.

There was one fine issued and paid during the year in relation to an infringement of Article 20(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 £132,245 (2010: £392,642). Based on budgeted costs, the Class III and Class II licence fees for 2011 were once again been set at 0.75% of regulated turnover.

Class II postal licence fees from Jersey Post continued to be received quarterly in advance and at the year end there was deferred postal licence fee income of £4,806 (2010: £69,046).

JERSEY COMPETITION REGULATORY AUTHORITY

(Incorporated in Jersey, Channel Islands)

MEMBERS

Mark Boleat (Non-Executive Chairman)
John Curran (Executive Director)
Robert Foster (Non-Executive Director)
Richard Povey (Non-Executive Director)
Philip Marsden (Non-Executive Director)

SECRETARY

Louise Read

INDEPENDENT AUDITORS

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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 2011.

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 (2010: surplus £1).

MEMBERS

The Members in office when these financial statements were approved are shown on page 9.

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

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 business; 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.

**INDEPENDENT AUDITORS REPORT
TO THE MEMBERS OF THE JERSEY COMPETITION REGULATORY AUTHORITY**

We have audited the financial statements of Jersey Competition Regulatory Authority for the year ended 31 December 2011 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.

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 10 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 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.

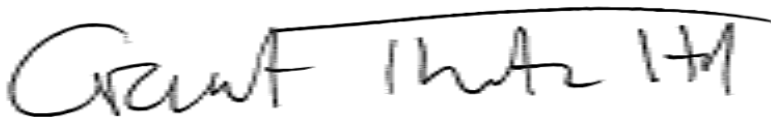
Scope of the audit of the financial statements

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.

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 2011 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.



**Grant Thornton Limited
Chartered Accountants
St Helier, Jersey, Channel Islands**

28 March 2012

JERSEY COMPETITION REGULATORY AUTHORITY
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011

	<i>Note</i>	<i>2011</i>	<i>2010</i>
		£	£
INCOME			
Licence fees		886,371	717,896
Economic Development Department grant		443,496	289,217
Mergers and acquisitions fees		84,220	102,415
Bank interest		940	953
Application fees		-	2,950
Sundry income		20	36
		<u>1,415,047</u>	<u>1,113,467</u>
EXPENDITURE			
Salaries and staff costs		688,582	778,915
Consultancy fees		261,967	86,071
Operating lease rentals		64,450	58,288
Travel and entertainment		15,975	9,753
Conference and course fees		15,963	12,880
Depreciation		9,597	21,877
Administration expenses		14,404	21,895
Legal and professional fees		213,474	19,123
General expenses		32,188	32,924
Audit and accounting fee		11,500	13,502
Advertising and publicity		15,812	4,132
Repairs and maintenance		33,385	23,744
Heat, light and water		3,971	5,399
Recruitment		33,778	24,963
		<u>1,415,046</u>	<u>1,113,466</u>
SURPLUS FOR THE YEAR	5	<u>1</u>	<u>1</u>

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 2011 and 31 December 2010.

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 2011

	<i>Notes</i>	<i>2011</i> £	<i>2010</i> £
FIXED ASSETS			
Tangible fixed assets	2	28,134	31,410
CURRENT ASSETS			
Debtors and prepayments	3	234,950	331,285
Cash at bank		233,177	583,455
		<u>468,127</u>	<u>914,740</u>
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	4	370,811	820,701
NET CURRENT ASSETS		<u>97,316</u>	<u>94,039</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>125,450</u>	<u>125,449</u>
RETAINED SURPLUS	5	<u>125,450</u>	<u>125,449</u>

The financial statements on pages 12 to 18 were approved by the members and signed on their behalf by:



John Curran
28 March 2012

The notes form an integral part of these financial statements.

JERSEY COMPETITION REGULATORY AUTHORITY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	<i>Note</i>	<i>2011</i> £	<i>2010</i> £
NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES	6	(344,897)	291,002
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		940	953
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(6,321)	(2,090)
		<u> </u>	<u> </u>
(DECREASE) / INCREASE		<u>(350,278)</u>	<u>289,865</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	<i>2011</i> £	<i>2010</i> £
(Decrease) / Increase in cash in year	(350,278)	289,865
Cash used to increase liquid resources	-	-
	<u> </u>	<u> </u>
Change in net funds	(350,278)	289,865
Net funds at 1 January	583,455	293,590
	<u> </u>	<u> </u>
Net funds at 31 December	<u>233,177</u>	<u>583,455</u>

ANALYSIS OF NET FUNDS

	<i>1 Jan 2011</i> £	<i>Cash flows</i> £	<i>31 Dec 2011</i> £
Cash at bank	183,455	49,722	233,177
Current asset investments	400,000	(400,000)	-
	<u> </u>	<u> </u>	<u> </u>
Total	<u>583,455</u>	<u>(350,278)</u>	<u>233,177</u>

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 2011

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 Jersey, incorporating United Kingdom accounting standards.

A summary of the more important accounting policies is set out below

a) *Interest receivable*

Interest on bank deposits is accrued on a daily 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 lives. The depreciation rates used are as follows:

Leasehold improvements	– remaining length of the lease or expected useful life whichever is shorter
Computer equipment	– 33% per annum
Fixtures and fittings	– 10% per annum
Other 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) *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.

e) *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 2011 amounted to £148,758 (2010: £291,255).

f) *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 2011 was 0.75% (2010: 0.75%).

The Operators were invoiced quarterly in advance and 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 2011 amounted to £132,245 (2010: £392,642). From 1 January 2012 operators holding Class II or Class III licences paying fees based on regulated turnover are to be given the option of paying monthly, in advance, by standing order.

JERSEY COMPETITION REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

1. ACCOUNTING POLICIES – CONTINUED

g) Postal licence fees to Class II Operators

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 fee for 2011 was set at £252,111 (2010: £332,167).

Jersey Post was invoiced quarterly in advance, whilst Class I operators were invoiced annually. 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 2011 amounted to £4,806 (2010: £69,046). From 1 January 2012 Jersey Post is to be given the option of paying monthly, in advance, by standing order.

h) 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.

i) Expenditure

Expenditure is accounted for on an accruals basis.

2. TANGIBLE FIXED ASSETS

	<i>Leasehold improvements</i>	<i>Computer equipment</i>	<i>Fixtures and fittings</i>	<i>Other equipment</i>	<i>Total</i>
	£	£	£	£	£
Cost					
At 1 January 2011	35,093	93,082	20,329	3,936	152,440
Additions	-	4,986	1,335	-	6,321
Disposals	-	(22,084)	(249)	-	(22,333)
At 31 December 2011	<u>35,093</u>	<u>75,984</u>	<u>21,415</u>	<u>3,936</u>	<u>136,428</u>
Depreciation					
At 1 January 2011	13,217	89,374	14,783	3,656	121,030
Charge in the year	3,975	4,036	1,528	58	9,597
Disposals	-	(22,084)	(249)	-	(22,333)
At 31 December 2011	<u>17,192</u>	<u>71,326</u>	<u>16,062</u>	<u>3,714</u>	<u>108,294</u>
Net book value:					
At 31 December 2011	<u>17,901</u>	<u>4,658</u>	<u>5,353</u>	<u>222</u>	<u>28,134</u>
At 31 December 2010	<u>21,876</u>	<u>3,708</u>	<u>5,546</u>	<u>280</u>	<u>31,410</u>

JERSEY COMPETITION REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

3. DEBTORS AND PREPAYMENTS

	<i>2011</i>	<i>2010</i>
	£	£
Prepayments	37,323	42,341
Trade debtors	194,188	288,358
Sundry debtors	3,439	586
	<u>234,950</u>	<u>331,285</u>

4. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<i>2011</i>	<i>2010</i>
	£	£
Accruals	52,389	47,758
Deferred grant income	148,758	291,255
Deferred licence fee income	137,051	461,688
Other deferred income	5,000	9,220
Trade creditors	20,876	2,684
Social security	6,737	8,096
	<u>370,811</u>	<u>820,701</u>

5. MOVEMENT ON RETAINED SURPLUS

	<i>2011</i>	<i>2010</i>
	£	£
Income and Expenditure Account		
At 1 January	125,449	125,448
Surplus for the year	1	1
	<u>125,450</u>	<u>125,449</u>

6. NOTE TO THE CASH FLOW STATEMENT

Reconciliation of surplus for the year to net cash (outflow) / inflow from operating activities:

	<i>2011</i>	<i>2010</i>
	£	£
Operating surplus	1	1
Depreciation	9,597	21,877
Interest on current asset investments	(940)	(953)
Decrease in debtors	96,335	183,313
(Decrease) / Increase in creditors	(449,890)	86,764
NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES	<u>(344,897)</u>	<u>291,002</u>

JERSEY COMPETITION REGULATORY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

7. RELATED PARTIES

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 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 2011, the Economic Development Minister provided funds to the JCRA to finance the administration and enforcement of the Competition (Jersey) Law 2005.

Amounts involved

- £291,255 brought forward as deferred grant income, as agreed from 2010
- £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

	<i>2011</i>	<i>2010</i>
	£	£
Deferred grant income (included in creditors)	148,758	291,255
	<u> </u>	<u> </u>

8. FINANCIAL COMMITMENTS

At 31 December 2011 the JCRA had annual commitments under non-cancellable operating leases as set out below:

	<i>Buildings</i>	
	<i>2011</i>	<i>2010</i>
	£	£
Operating leases which expire:		
Not later than one year	-	-
In more than one year but less than five years	53,886	-
Later than five years	-	53,886
	<u> </u>	<u> </u>
	53,886	53,886
	<u> </u>	<u> </u>

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 £67,509 (2010: £105,282) were charged in the year and 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.

Currently the Members of the Board comprise of a Chairman, an Executive Director and three Non-Executive Members, one of whom lives on Jersey.

JERSEY COMPETITION REGULATORY AUTHORITY

CORPORATE GOVERNANCE GUIDELINES

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. 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 shall 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 will hold 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 2011 the Board met twelve 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 this power of delegation or the function of reviewing any of its decisions.

Customarily, the Board holds an annual away day. This event, which may also be attended by senior staff, is an opportunity for the Board to conduct an evaluation of its performance during the year and discuss strategic issues for the year ahead and possible changes to the *modus operandi*.

The Board maintains a strategic plan and annual budget which is prepared by the Executive Director 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 Executive Director makes recommendations to the Minister in respect of fees paid to the Non- Executive Board members.

JERSEY COMPETITION REGULATORY AUTHORITY

CORPORATE GOVERNANCE GUIDELINES

Committees of the Board

Article 7(1) of the CRA Law enables the JCRA to establish committees.

During 2011 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.

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 Economic Development Minister under Article 17 of the CRA Law.

The members of the Audit and Risk Committee are Robert Foster (Chairman), Richard Povey and Philip Marsden. The Executive Director 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.

JERSEY COMPETITION REGULATORY AUTHORITY

CORPORATE GOVERNANCE GUIDELINES

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 as follows:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- 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 the accounts and prepare 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 shall 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 be prepared in accordance with generally accepted accounting principles.

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 corporate governance which may include matters relating to accountability, efficiency and economy of operation of the JCRA.

The Board is in the process of establishing a revised Service Level Agreement with the Minister in respect of the Competition Law grant made from the States of Jersey.