States of Jersey

SUMMARY OF THE FINANCIAL REPORT AND ACCOUNTS 2011

STATES OF JERSEY TREASURY

TREASURY & RESOURCES

Minister's Foreword

2011 was a challenging year and departments have had to balance demand with the requirement to manage budgets and a savings target. This has been achieved without a significant impact on how we deliver services to you. We have had to be prudent but have needed to call upon the Stabilisation Fund to help balance our financial position.

There has been an impact on the public of Jersey, with the effects of taxation policy being felt by many households and businesses locally. We are mindful of this impact and it is ever-present when we consider how to manage expenditure.

Our aim is to continue to manage the operational performance of the States of Jersey and to increase the focus on managing all of the finances which includes actively considering investment strategy and capital investment.

Treasurer's Introduction to the Summary Accounts

Each year, the Treasurer of the States produces the Financial Report and Accounts for the States of Jersey. The Accounts are independently audited to ensure that they give a true and fair view of the financial position.

The Accounts show both how your money was spent on services for the Island and the different sources of funding.

Our Accounts are an important part of the States financial stewardship and help to ensure that money is being spent wisely. We are accountable for public money and the accounts are one way to demonstrate value and good financial management.

These Summary Accounts are there for you to see what happened in 2011 and to help you understand and have your say about any aspect of the Accounts.

Highlights for 2011 include:

- Expenditure £41m lower than the latest published forecast with services being maintained at stated levels.
- Expenditure being maintained at 2010 levels.
- States income £22m higher than anticipated in the 2011 Budget.
- £64m invested in the Island through capital projects like Social Housing Construction and the new Town Park.
- Growth in investment returns for the Strategic Reserve to £594m.

The Summary Accounts are intended to complement the full version of the Financial Report and Accounts, which are available on www.gov.je

What did we spend money on?

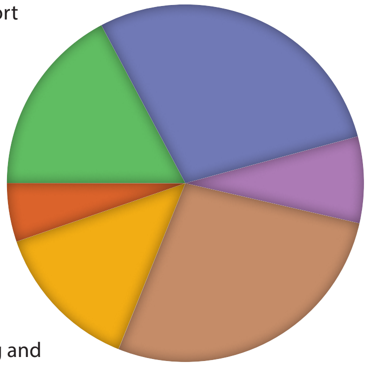
Day-to-day spending

Approval	Budget £m	Spend £m	Difference £m
Ministerial Departments			
Chief Minister	26	25	1
- Overseas Aid	8	8	–
Economic Development	19	18	1
Education, Sport and Culture	107	104	3
Department of the Environment	7	7	–
Health and Social Services	171	170	1
Home Affairs	49	48	1
Housing	(20)	(21)	1
Social Security	175	164	11
Transport and Technical Services	28	26	2
Treasury and Resources	27	26	1
- Contingencies	14	–	14
Legal, Viscounts and Bailiff's	24	19	5
States Assembly and its services	5	5	–
Net Revenue Expenditure	**640**	**599**	**41**

Some of the larger underspends for 2011 were:

- £13.6m of contingency sums which were set aside but not required in 2011.
- £10.5m of lower Social Security costs than anticipated.
- £2.6m recovered costs following successful prosecutions.

What did we spend money on?



73% of our overall expenditure was spent on three key departments – Health and Social Services (29%), Social Security (27%) and Education, Sport and Culture (17%).

£599m expenditure equates to approximately £6,000 of expenditure for every person living in Jersey.

Net Revenue Expenditure by Department

Expenditure in 2011 was broadly the same as that in 2010, which means less was spent in real terms after allowing for inflation. Highlights included:

- Savings of £11 million from the Comprehensive Saving Review were achieved as planned through the CSR programme.
- Expenditure on Health services of approximately £1,750 per resident. This included support for our most vulnerable citizens, with nearly £65 million being spent on mental health and social service provision.
- In 2011 Health and Social Services also received extra funding to increase capacity in wards.
- £157 million was paid in Social Security Benefit payments, including £90 million as part of Income Support.
- £71 million was spent on the provision of Schools and Colleges for the Island.

How did we pay for it?

The main source of funding for States Expenditure is income raised in the year.

	Budget £m	Income £m	Difference £m
Income Tax	380	409	29
Goods and Services Tax	67	66	(1)
Impots Duty	54	51	(3)
Stamp Duty	20	23	3
Island Rate	11	11	-
Investment and Other Income	33	27	(6)
Net General Revenue Income	**565**	**587**	**22**
Departmental Income		126	
Trading Operation Income		54	
Other Income and Adjustments		26	
Total Income		**793**	

The States of Jersey has six major income streams and the largest is Income Tax. This performed better than anticipated by £29m in 2011. This was due to £19 million more being received from individuals than expected, and £10 million more from companies.

The Accounts show total Income of £793m. This includes all income received by the States, for example by departments for services provided, and returns on investments held in the Strategic Reserve and other funds.

What did we spend money on?

Capital Expenditure

Capital Expenditure represents money spent by the States for the purchase or improvements of assets such as property, equipment and vehicles.

	Spend £m
Health & Social Services	2
Home Affairs	2
Housing	13
Transport and Technical Services	32
Jersey Property Holdings	
- Education, Sport and Culture	5
- Health & Social Services	2
- Home Affairs	4
- Other	2
Other Departments	2
Total	**64**

In 2011 the projects we spent money on included:

- The new Energy from Waste Plant – which was completed in the year.
- Social Housing construction projects at Salisbury Crescent and Le Squez.
- The creation of the Town Park.
- Improvements to the Prison, including the creation of new visitor and staff facilities.

Works at Salisbury Crescent and Clos Gosset.

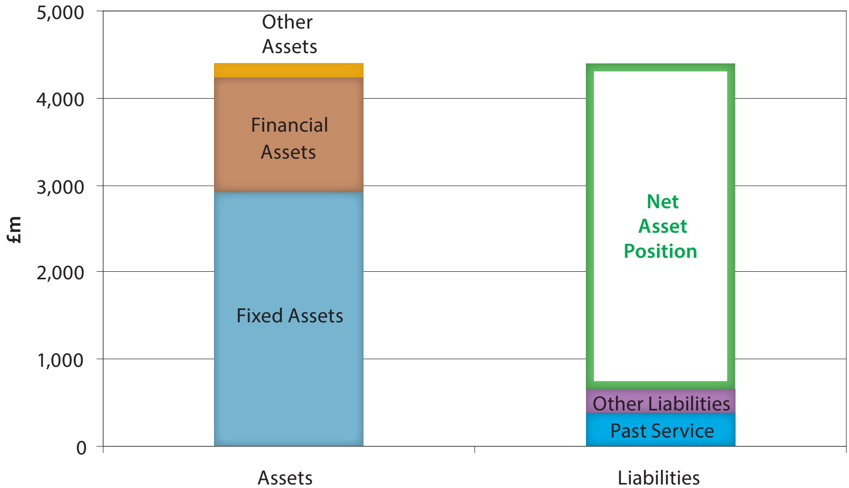
What does this performance do for Jersey?

Jersey has a strong balance sheet and has total Net Assets of £3,737 million at the end of 2011. This is made up of:

- £2,922 million of property, land and infrastructure, used to deliver services. This has increased by £154m since 2011 because of the delivery of key projects and the revaluation of infrastructure assets.
- £1,315 million of financial assets and Cash, invested on your behalf.
- £150 million of other current assets such as Debtors and Stock, and £239 million of current liabilities (including Creditors and Currency in Circulation).
- £414 million of long term liabilities (predominantly Pension Past Service Liabilities).

The balance sheet for Jersey got stronger by £175 million in 2011 and it is important to note the relative strength of the asset position against how much Jersey has as long term liabilities.

Balance Sheet Position



Balance Sheet in Detail

States Reserves

The States operates two main reserves – the Strategic Reserve and the Stabilisation Fund.

	2010 Value £m	2011 Value £m
Strategic Reserve	587	594
Stabilisation Fund	47	1

The Strategic Reserve is a permanent reserve, to be used only in exceptional circumstances.

The Stabilisation Fund is designed to protect against economic cycles, and has been used during the economic downturn.

The Strategic Reserve grew by £7 million in the year, and the balance in the Stabilisation Fund has been used to support the economy and therefore reduced. This has been used to ensure that the Jersey economy can sustain itself during the overall global economic downturn.

States Investments

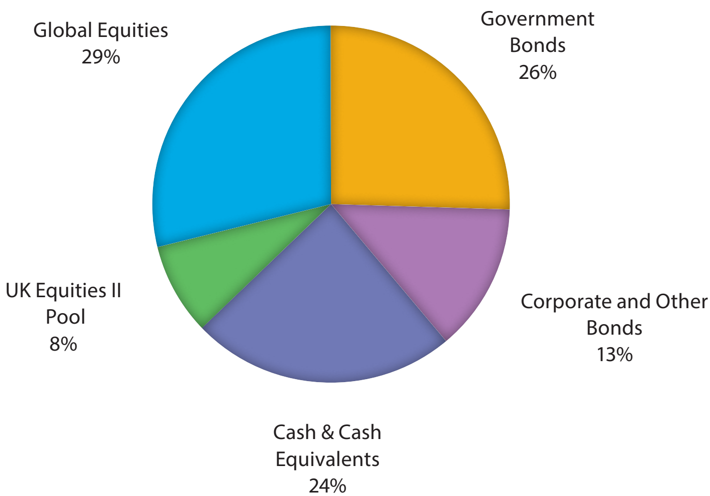
Since 2010, the States has operated a "Common Investment Fund" ("CIF") which allows States Funds to pool resources and benefit from greater investment opportunities. In total £1.3 billion of investments are managed in the CIF.

The CIF operates a number of Pools which hold investments of various types to allow Funds to invest according to their investment strategies.

In difficult market conditions, the CIF has increased in total value over the course of the year, outperforming the benchmarks set by the Treasury Advisory Panel.

The States also holds investments in the utility companies in the Island, and these collectively paid dividends to the States of over £14 million. The value of these investments has increased in 2011 to £326 million.

Breakdown of SOJ investments in the CIF



States Liabilities

The States of Jersey administer two major pension schemes on behalf of its employees:

- Public Employees Contributory Retirement Scheme (PECRS)
- Jersey Teachers Superannuation Fund (JTSF)

At the end of the year the PECRS investments were worth £1.2 billion, and the latest actuarial valuation indicated that the Scheme had a surplus of £40.6 million.

JTSF investments were worth £302 million. The last actuarial valuation in 2006 indicated that the Scheme had a surplus of £50 million. However following the restructuring of the scheme benefits in 2007 (to link benefits to inflation) there is a deficit in the scheme which is expected to be filled by additional contributions from the States and Accepted Schools. Details of these additional contributions are still under discussion.

Prior to 1987, pension increases in retirement were paid for by employers rather than the PECRS. However, as part of a restructure of the scheme, it was agreed that the scheme would take on the liability to pay pension increases, with employers repaying the "pre-1987 debt" over a period of 82 years.

The JTSF was similarly restructured in 2007, and so a liability is also recognised for the shortfall in the scheme at that point.

	2010 Liability £m	2011 Liability £m
PECRS pre 1987	269	252
JTSF pre 2007	114	135

Any shortfall in the schemes after these dates must be met by the scheme's members, and so no further liability is recognised by the States.

How are Public Sector Pension Schemes valued?

Pension schemes are required to give two separate valuations, and it is important to understand why these valuations are required and the effect that the schemes have on the long-term sustainability of pension funds.

What are the two valuations?

1. Pension schemes are required to have an independent Actuarial Valuation conducted every three years. The actuary is required to adhere to professional standards in adopting a valuation method and actuarial assumptions that can assess the sustainability of a fund and whether employer and employee contributions can support the long-term benefits of a pension scheme adequately.

2. Financial Reporting Standard 17 requires a prescribed method of valuing pension scheme assets and liabilities. Whilst the States has no liability for shortfalls after the agreed dates, it includes this information in the Accounts for information.

Why do the valuations differ?

Under an Actuarial Valuation, the ability of the employer and employee contributions to continue to support the benefits is taken into consideration, including the employer's commitment to repay the pre-1987 debt. Future payments are disregarded under the prescribed method for calculating an FRS17 Valuation.

The FRS17 valuation also uses highly conservative investment assumptions based on the current rate of return of high-quality corporate bonds; which are unlikely to reflect the returns expected from the actual investments in which pension schemes invest. The Actuarial Valuation uses a long-term estimate of the expected returns from the scheme's actual investments.

The Future of the Schemes

Increasing longevity and changes to the way people live and work mean that there is a need to review public sector pension provision in Jersey. There is also a need to regard the outcome of the Hutton Report in order to facilitate the movement of staff to and from the UK.

A Technical Working Group, comprising of representatives from the PECRS Committee of Management and Treasury, has been established to develop proposals for further consideration on changes to public sector pension schemes. The group will aim to ensure that these schemes are fair, affordable and sustainable for the long term and assess the potential impact of possible changes to both benefits and contribution rates.

The Visitor centre at Durrell and the refurbishment at Jersey Hospice were both supported by the Fiscal Stimulus Programme

States of Jersey Treasury

Cyril Le Marquand House
PO Box 353
Jersey, Channel Islands
JE4 8UL

Telephone: +44 (0)1534 440215
Facsimile: +44 (0)1534 445522

www.gov.je