States of Jersey

# SUMMARY OF FINANCIAL REPORT AND ACCOUNTS 2012

TREASURY & RESOURCES

# Overall Position for 2012 – Income and Expenditure

The States ended the year in a good position, with higher income than budgeted, and lower expenditure than approved.

## General Revenue Income

General Revenue Income policy is set via the States Annual Budget, and covers the main sources of States Income such as Taxes and Duty.

| Net General Revenue Income | | |
|---|---|---|
| Budget 2012 **£612.3** million | Actual 2012 **£627.7 million** | **2.5%** better than the 2012 Budget |

## Departments' Near Cash Revenue Expenditure

The majority of day-to-day expenditure is made through Departments, as approved in the Medium Term Financial Plan.

| Ministerial and Non-ministerial Departments Near Cash Net Revenue Expenditure | | |
|---|---|---|
| Business Plan 2012 Approval £ 615.8 million | Actual 2012 **£600.6 million** | 2.5% Less than the Final Approved Budget |
| Budget Carried forward from 2011 £ 41.4 million | | |

## Capital Expenditure

Capital Expenditure is that which enhances assets held by the States for delivery of services, e.g. property and equipment.

| Capital Expenditure | | |
|---|---|---|
| **Consolidated Fund** | Actual 2012 **£33.3 million** | £98.9 million still to be spent |
| **Trading Operations** | Actual 2012 **£3.6 million** | £41.5 million still to be spent |

# 2012 General Revenue Income

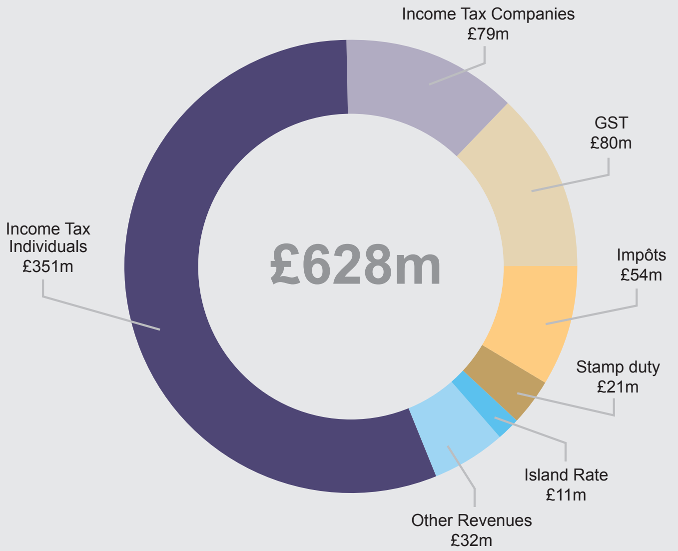
**General Revenue Income in 2012 was £15 million (2.5%) better than budgeted – mostly due to increased Tax receipts of £14 million and an additional £4 million dividend from Jersey Post, offset by Stamp Duty which was £3 million lower than budgeted.**

## Company Tax

Companies pay tax under the 0/10 Regime: 10% for Financial Services Companies and 0% for all other non-financial service entities and 20% for property companies and utilities.

## Goods and Services Tax

A consumption tax of 5% on imports and supplies made in Jersey. The underlying principles are that the tax is low, broad and simple.




## Personal Income Tax

A maximum of 20% standard rate with marginal relief to protect lower income earners.

## Impôts

Impôts duties are duties charged on goods as they are imported to the Island. The duties apply to a range of commodities including alcohol, tobacco and fuel.

# 2012 Departmental Revenue Expenditure

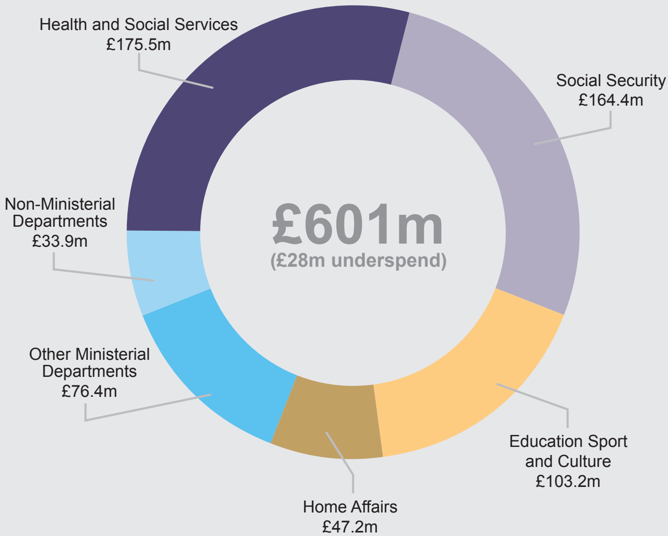
**Departments spent £600.6 million to provide services to the public – that equates to £14,440 per household**

### Health and Social Services

**£175.5 million** - Promotes health and social wellbeing for the whole community, providing prompt services to all and protecting the interests of the frail and the vulnerable.

### Social Security

**£164.4 million -** Responsible for the administration of contributions and benefits, the Health and Safety Inspectorate, and a number of employment services.

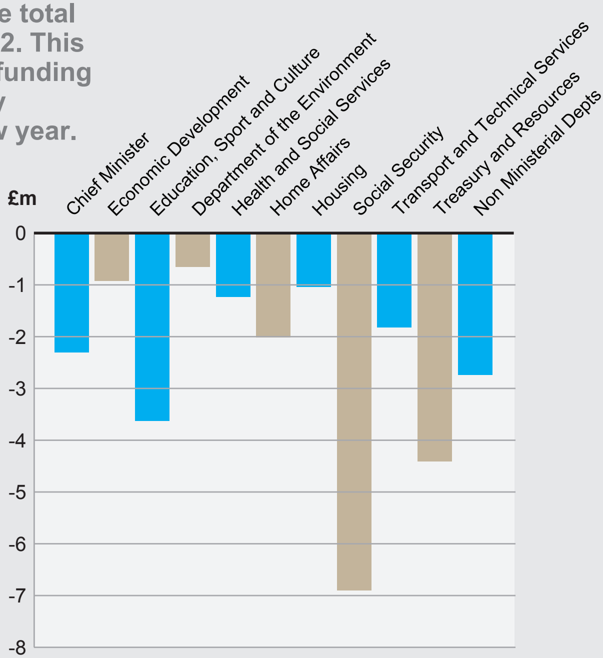



### Education, Sport and Culture

**£103.2 million -** Provides educational, sporting and cultural opportunities for the people of Jersey, supporting Jersey's commitment to encourage lifelong learning and enabling everyone to realise their potential.

## 2012 Underspends

**As a result of States-wide, careful management of spending, Departments spent £27.6 million less than the total approved amount for 2012. This means that some of this funding can be carried forward by Departments into the new year.**



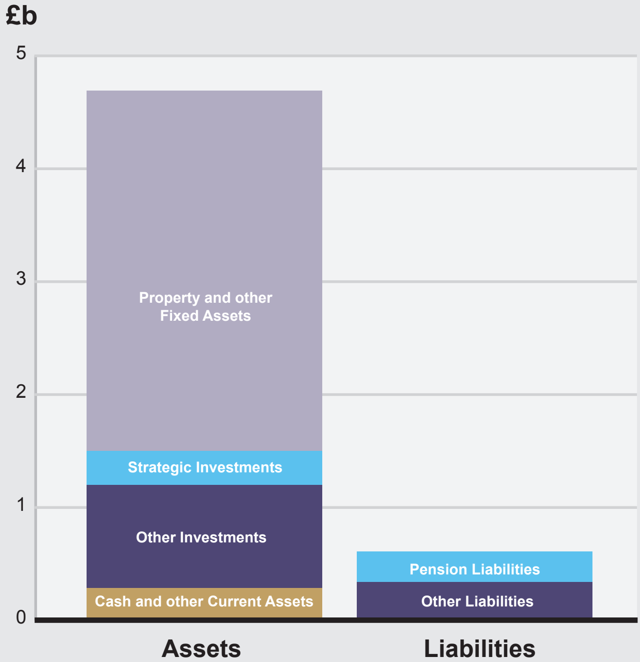

Contingencies of £28.4 million were also maintained.

## Carry forwards to 2013

**£22.1 million (3.7% of 2012 original departmental budget) of the under spends has been carried forward to fund service priorities, £5.5 million will be retained as a contingency.**

# Overall Position for 2012 – Balance Sheet

The States has a healthy balance sheet, with valuable assets and relatively small liabilities. It is vital that the States manages the balance sheet as well as the budget.




## Consolidated Fund Balance

This is the States' "Current Account", and as at 31 December 2012 the Consolidated Fund had a balance of £31.2 million.

## Strategic Reserve

Jersey has a prudent approach to managing its money and has a "rainy day fund" in the form of the Strategic Reserve. During 2012 strong investment returns from a diversified portfolio delivered an extra £56.9 million, and the Strategic Reserve stands at over £651.2 million.

# Managing the Balance Sheet

## Balance Sheet: Key Initiatives

Some of the key initiatives that the States is taking to manage the balance sheet better include:

- The Effective Management of the Property Portfolio through Jersey Property Holdings.
- Strategic land development through The States of Jersey Development Company.
- Incorporation proposals for Housing and Harbours and Airport.
- Optimising the shareholder value from the States' ownership of utilities.
- Maximising our return on investments in particular the Strategic Reserve and Social Security Reserve.
- Maximising Pension Fund investments and managing future liabilities through planned revisions to the Schemes.

## Housing Incorporation

Following a States decision in May 2012, the Housing Transformation project will go ahead and this means the Housing Department will move to a Company limited by guarantee in 2014. The new housing association will be responsible for the management of all directly provided social housing for the States of Jersey.

The housing association will make a contribution to the States similar to that from the current Housing Department, and so there won't be a significant impact on net expenditure of the States.

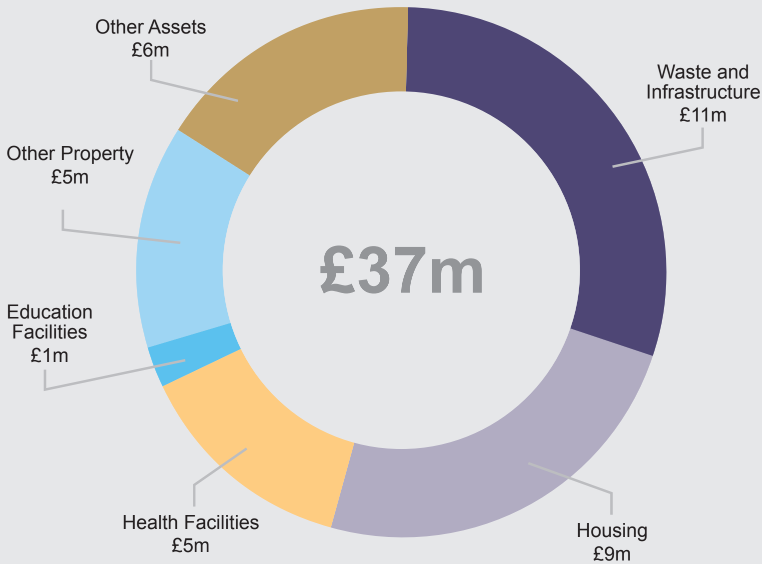
## Ports of Jersey Incorporation

Harbours and Airports have now moved from two separate teams to one integrated group. A proposal has been made to incorporate these two separate entities into a new Ports Authority that will move outside the States and become a Strategic Investment wholly owned by the States.

As Harbours and Airports are already obliged to be self funding the outcome of the incorporation process will not have a significant impact on net expenditure of the States.

# 2012 Capital Expenditure

A key part of managing the balance sheet is investing in the Assets that the States uses to provide operational services to Islanders. The capital programme recognises the need to invest in the States Assets, and the valuable stimulation that this provides to the Islands' economy. During 2012 amounts were spent on a diverse range of projects:



# Capital Expenditure – 2013-2015

Looking forward, the Capital Plan 2013 -2015 includes the following amounts:

| 2013 | 2014 | 2015 |
|---|---|---|
| **£56** million | **£89** million | **£77** million |

## Major Planned Projects:

### St Martin School

A new school is considered to be the most cost-effective option to replace the existing school.

### Replacement School

Work is about to commence on a feasibility study for this project which should enable a business case to be prepared with improved cost estimates, location and potential. This project is at its very early stages. Education are considering how best to meet the needs of a growing primary school population in St Helier. This funding will be made available if the feasibility study demonstrates a clear, long term need.

### Infrastructure

The infrastructure rolling vote is designed to allow TTS to facilitate the maintenance and further improvement of the islands infrastructure network. The allocation is split broadly between highways (£3 million p.a.), traffic improvements / street lighting (£1 million p.a.), drainage infrastructure maintenance including pumping stations (£4 million p.a.) and other infrastructure assets (£750,000).

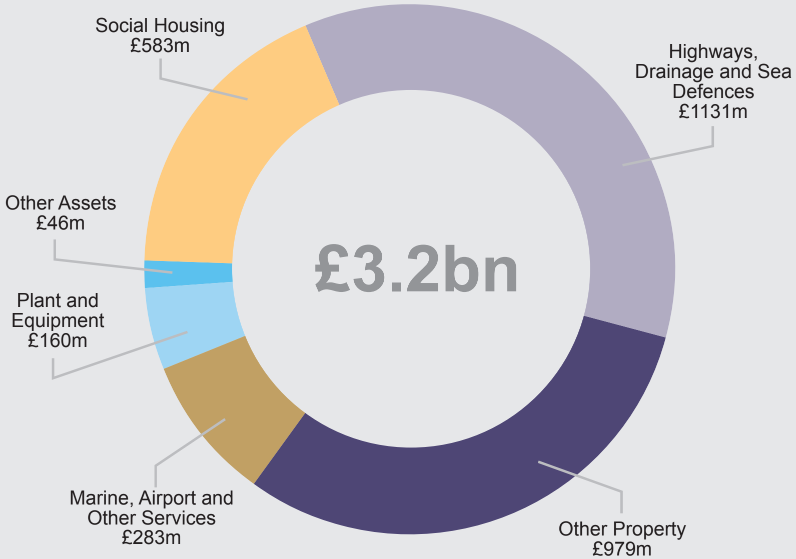
### Social Housing Programme

“House our community” is a key Strategic Priority for the States and the aim is that all Island residents should be housed adequately. The Housing department have a detailed programme that includes both new build and refurbishment projects.

# States Assets

## Property, Plant and Equipment

The States holds Assets to be used in providing services. During the year the States' Property and other Assets were revalued in line with Accounting requirements to £3.2 billion.




## Depreciation and Impairments

Depreciation is an amount that represents the cost of "using up" fixed assets – spreading their cost over their useful life. In 2012 depreciation of £51.9 million was charged (including amounts in Trading Operations).

Impairments are recognised where assets decrease in value, either through damage or obsolescence, or through drops in market value. £21.5 million of impairments due to drops in market value were recognised in 2012, mostly relating to the Airport. This reflects changes in the valuation assumptions, and does not reflect a deterioration in the assets.

# Pension Schemes

The States operates two main pension schemes:

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

These funds are valued in two ways:

- The Actuarial Valuation allows assessment of the sustainability of the scheme, and is carried out every 3 years.
- The IAS 19 (Accounting) Valuation is a snapshot of the current position.

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 IAS 19 Valuation.

The current position of each scheme under both methods is given below:

| Method | PECRS | JTSF |
|---|---|---|
| **IAS 19 (2012)** | £766.8 million deficit | £298.0 million deficit |
| **Actuarial (2010)** | £40.6 million surplus | No surplus or deficit |

Whilst the IAS 19 valuation shows deficits in each scheme, the Actuarial Valuation a surplus for PECRS, and that the JTSF has neither a surplus or deficit.

# Pension Reform

## Why is reform necessary?

- People are living for longer, and drawing on the fund for longer. In 1980 a man retiring at age 60 could expect to live until he was 76, now he can expect to live until 87.
- Investments haven't grown fast enough to generate the required returns, together with the contributions, to fund the pensions.
- The way that we work and live has changed: flexible hours, part-time jobs and different life styles.

The current scheme is no longer sustainable and affordable.

## What Principles have been applied

The scheme must be:

- Sustainable (for at least the next 25 years).
- Affordable (for members, employers and the taxpayer).
- Fair (for all members).

## What is being proposed?

Options under consideration include

- Career Average Revalued Earning (CARE) Scheme.
- Normal retirement age linked to Jersey state pension age.
- Higher employee contribution rates (average increase in UK 3% of pay).
- Risk sharing between employer and employees.
- Contribution cap for employees, employers and tax payers.

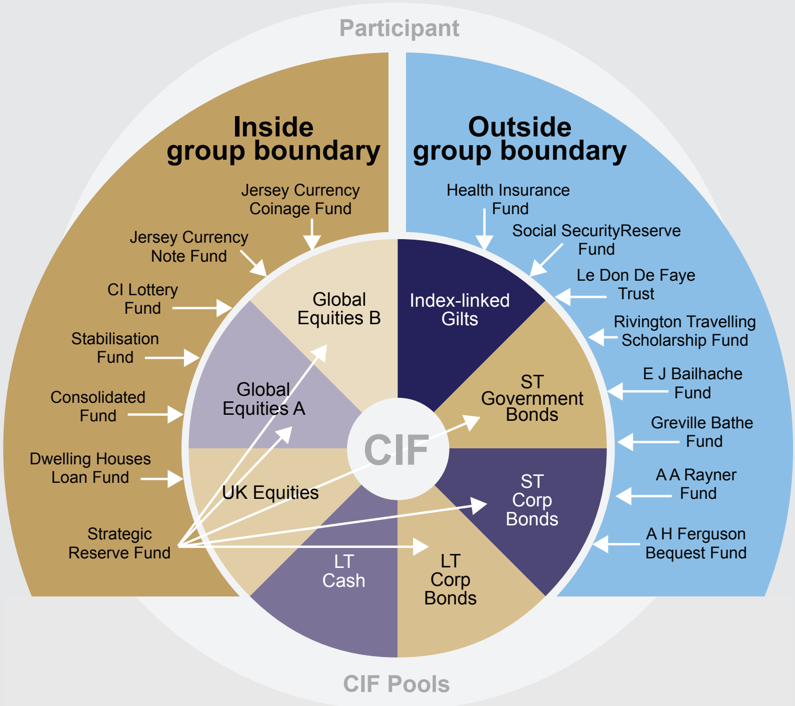
*More details can be found on* ***www.gov.je***

# States Investment Strategy

The aim of the Investment Strategy is to achieve an appropriate balance between managing risk and maximising the return on each of the funds within the agreed guidelines.

To enable States funds to pool funds and benefit from greater investment opportunities and economies of scale, the States operates a Common Investment Fund.

The Common Investment Fund operates with the aim of managing risk through diversification and increasing the return on participant funds investments. The Common Investment Fund currently operates nine Investment Pools.

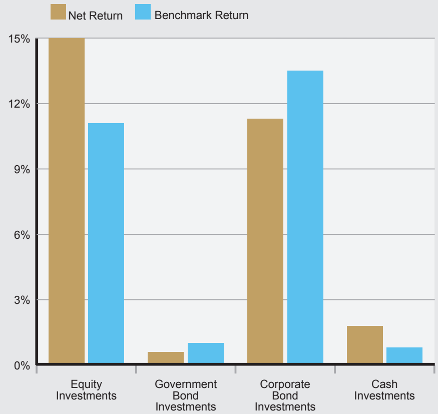


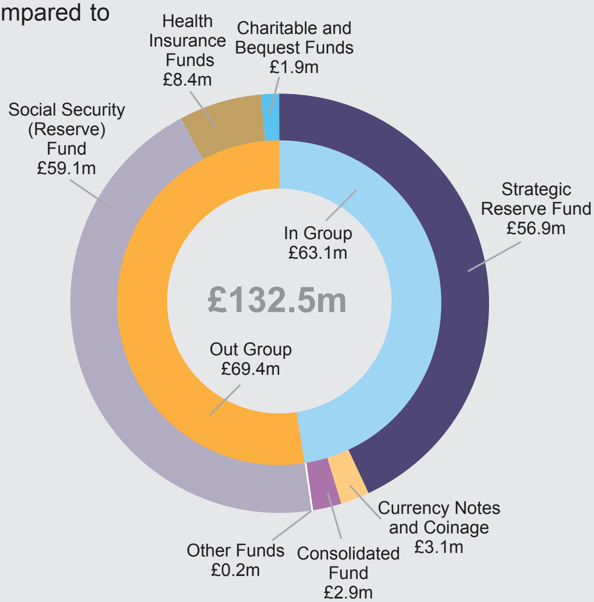
# The Common Investment Fund – 2012 Performance

The Common Investment Fund (CIF) allows States Funds to benefit from economies of scale and a range of diversified investment opportunities, that increase returns and manage exposure to risk.

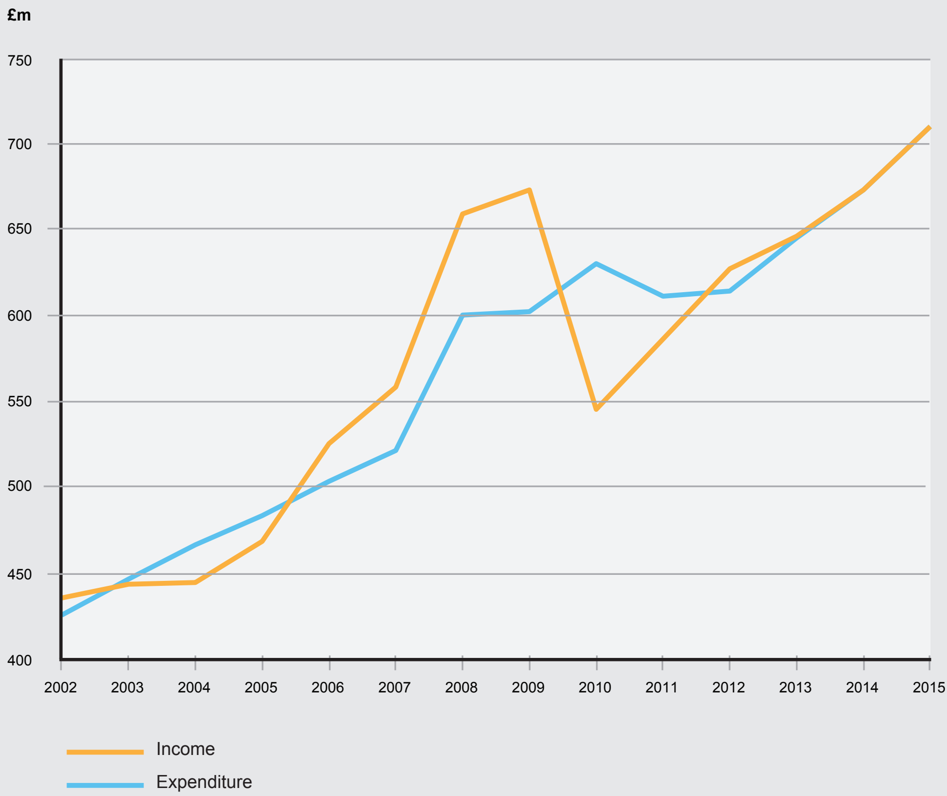
During the year the CIF generated significant income for the States of Jersey; earning net income of £132.5 million in total, representing a return on capital of around 9.8% - exceeding industry wide benchmarks by 2%.

The diagrams below illustrates the actual earnings of the CIF split by participant over 2012, and the relative performance of each asset class compared to its apportioned benchmark.



# Looking Forward: Forecast Financial Position to 2015




The graph shows a return to broadly balances income and expenditure in 2013 to 2015 and this is based on the following principles.

# Balancing Tax and Spending: Resource Principles:

- Be prudent, taking account of the uncertain economic and financial outlook.
- Identify and implement all possible savings and efficiencies. (For 2013 and beyond we will optimise methods of service delivery and provide value for money).
- No additional spend unless matched by savings or income.
- Maintain balanced budgets over the medium term for current expenditure and achieve an appropriate balance between taxation and spending over the course of the economic cycle.
- Actively manage the Balance Sheet as well as the Budget by maximising investment returns within agreed levels of risk.
- Plan our expenditure on capital and infrastructure over the long term and consider carefully the appropriate sources of funding for major projects, including borrowing.

The States also have a number of principles that underpin the system of taxation:

- Taxation must be necessary, justifiable and sustainable.
- Taxes should be low, broad and simple.
- Everyone should make an appropriate contribution to the cost of providing services, while those on the lowest incomes are protected.
- Taxes must be internationally competitive.
- Taxation should support economic development and social policy, where possible.

States of Jersey

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