

**Report to the States of Jersey  
Department for Education, Sport  
and Culture**

**Jersey Heritage Trust  
Financial and Business Review**

**Part I – Detailed Findings**

**March 2010**



**BDO Alto Limited**

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Dear Minister

In accordance with your instructions, confirmed in our engagement letter dated 15 October 2009, we have prepared a Report on Jersey Heritage Trust (referred to herein as the "Trust" or "Jersey Heritage").

This Report was prepared in connection with your review of annual and one-off grant funding being provided to the Trust by the Education, Sport and Culture Department ("ESC").

The objective of this Report is to present the current financial position of the Trust, to consider financial forecasts and business plans and to review governance arrangements. This in turn will enable ESC to develop a deeper understanding of the position of the Trust, as well as its medium to longer term operating and financial opportunities and risks.

This Report is intended solely for the use of the Minister, ESC Officers and their advisers. It is based on the latest information made available to us and we accept no responsibility for events after the date of issue.

Whilst it is our understanding that you may be required to put this Report into the public domain, we do not, in preparing this Report and giving the opinions stated herein, accept or assume responsibility for any other purpose or to any other person to whom it is shown or into whose hands it may come save as expressly agreed by our prior written consent. If others choose to rely on the contents of this Report, they do so entirely at their own risk.

Certain content, such as details relating to staff salaries, which were included in our draft report have been redacted due to the sensitivity of the information, in the event that this Report does not remain confidential to the ESC team.

The scope of our work is set out in our engagement letter. We emphasise that our enquiries would not necessarily disclose all matters of significance to you relating to Jersey Heritage. We have not carried out any audit work on the financial information included in our report and we express no opinion thereon.

We present and comment on the projected results of Jersey Heritage, which are solely the responsibility of the Trust. Since projected results relate to the future, actual results are likely to be different from those projected, because events and circumstances frequently do not occur as expected. The differences may be material.

The Director and Finance Director of Jersey Heritage have reviewed a draft copy of this Report. They have confirmed to us that there are no material errors of fact or omission in the context of the scope of the Report. Their comments have been reflected, where we deem relevant, in this Report.

We would like to express our appreciation for the assistance and co-operation received from the Trustees, Directors, management and staff of Jersey Heritage, and the Ministerial Team, Officers and staff at ESC during our work.

Yours faithfully



**BDO Alto Limited**

| <i>Term</i>    | <i>Meaning</i>   |
|----------------|--|
| 2006A          | Actual results for the accounting year to 31 December 2006                 |
| 2007A          | Actual results for the accounting year to 31 December 2007                 |
| 2008A          | Actual results for the accounting year to 31 December 2008                 |
| 9M 2009        | Actual results for the 9-month period ended 30 September 2009              |
| AJC            | Association of Jersey Charities  |
| AMF            | Ancient Monuments Fund   |
| BDO            | BDO Alto Limited, author of this Report                                    |
| C&AG           | Comptroller and Auditor General  |
| ESC            | Education, Sport and Culture Department                                    |
| F&T            | Forts and Towers   |
| FTE            | Full Time Equivalent   |
| FY             | Financial year (runs 1 January to 31 December)                             |
| GAAP           | Generally accepted accounting principles                                   |
| JEP            | Jersey Evening Post  |
| KPIs           | Key performance indicators   |
| MLA            | Museums Libraries Archives Council   |
| NGO            | Non-Government Organisation  |
| P&E            | Planning and Environment Department  |
| Q1, Q2, Q3, Q4 | Quarter 1 (January to March), Q2 (April to June) etc ...                   |
| SFCG           | Sir Francis Cook Gallery   |
| SLA            | Service Level Agreement  |
| Societe        | The Societe Jersiaise  |
| SOFA           | Statement of Financial Activities  |
| SORP           | Statement of Recommended Practice on Accounting and Reporting by Charities |
| States         | The States of Jersey   |
| TDF            | Tourism Development Fund   |
| Trust          | Jersey Heritage Trust  |
| VSA            | Visitor Services Assistant   |
| YTD            | Year-to-date   |

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## 1 Summary of findings

### Scope of work

- This summary covers those matters we believe to be material in the context of our work. However, you should read the entirety of this Report as there may be other matters raised that you consider to be material.
- We have prepared this Report from a number of sources, and we have referred to information sources throughout this Report.
- The scope of our work as agreed in our engagement letter was not restricted.
- We have not undertaken any form of legal due diligence and have not, for example, undertaken a review of the legal structure of the Trust or any contracts in place between Jersey Heritage and any third parties.
- This Report aims to provide sufficient detail as to the nature of the Trust's activities and cost base so as to assist ESC and the Trust to identify, jointly, areas of potential cost savings, and to properly understand the financial impact of any decisions to close specific sites and services or otherwise to reshape the activities of the Trust.
- For the avoidance of any doubt, it is not the role of this Report to identify those potential savings.
- However, further to the issuance of a draft of this Report, the management of Jersey Heritage have identified potential areas of cost saving, being those items that could be saved irrespective of the future strategic direction of the Trust. Our review of these identified cost savings forms Part II to this Report, which will be issued in April 2010.

### Overview

- Jersey Heritage, whilst a NGO, currently receives circa £2 million of annual grant funding from ESC.
- The principal activity of Jersey Heritage is the management of various heritage sites and attractions within the Island of Jersey, as well as acting as guardian and curator for collections and artefacts owned by the States and the Societe.
- This review has arisen as a result of the Trust seeking additional funding in 2009 from ESC in order to continue as a going concern, this funding being provided by way of a "bail-out" grant (the total additional grant funding in 2009 is circa £1.1 million).
- As a result of our review, we have defined the current intentions of ESC and Jersey Heritage as being:
  - That the objectives and activities of the Trust be agreed, and encapsulated within a new Partnership / Service Level agreement between the parties;
  - That Jersey Heritage develops an operating model which allows it to work within its agreed grant (in addition to its own self-generated income);
  - That governance arrangements be reviewed and developed (as necessary) to support these new arrangements; and
  - That timely robust financial and non-financial reporting is developed to support reviews and decision making by both the Trustees and ESC.

## Key findings

- Jersey Heritage has a recurring annual financial deficit (based on current service provision) and has no means of its own to make good that deficit as a result of its “fragile” balance sheet and cash position. The draft deficit for 2009, before additional grant, is circa £150,000 (see second table opposite); the 2010 deficit is expected to be in the region of £550,000.
- In 2009 the States, via ESC, has inadvertently become the “banker of last resort” to Jersey Heritage, through ESC’s provision of an additional circa £1.1 million of grant funding – i.e. over and above the annual grant of circa £2 million (see top table opposite). It is now critical for the States to determine which services and/or sites it wishes to support and protect, in order for Jersey Heritage and ESC to agree a sustainable strategy for 2010 (which will be a transitional year) and beyond.
- Assuming no change to the current level of States grant, it would appear that the Trust will be in a position of managing decline in its activity levels going forward, given falling numbers of visitors to the Island and a lack of capital to fund new facilities, amongst other things.
- As a result, in the absence of a commitment by the States to fund specific sites / activities, it appears to us that the Trust will need to effect site / activity closures in the short and medium term, in order to “balance its books” through the reduction of its cost base.
- We understand that the States would have certain responsibilities to maintain and manage key heritage sites in the event that the Trust withdrew from operating them.
- Jersey Heritage is operating in an environment of increased competition for funding from all sources - the States, the business community and the public. This is evidenced by the withdrawal of a number of important sponsors for 2010.

## ESC grant summary – 2009

|  |         | £                |
|--|---------|------------------|
| Annual grant   | Q1 2009 | 2,077,522        |
| Additional grant   | Q1 2009 | 200,000          |
| Additional “bail-out” grant:                                   |         |                  |
| - Operational funding  | Q4 2009 | 545,820          |
| - Re-instatement of restricted funds                           | Q4 2009 | 342,090          |
| Additional grants  |         | 1,087,910        |
| <b>Total grants provided to Jersey Heritage by ESC in 2009</b> |         | <b>3,165,432</b> |

Source: JHT management and BDO Analysis

## Jersey Heritage – draft full year out-turn 2009

|  |  | £                |
|--|--|------------------|
| Surplus (draft) per management accounts                      |  | 49,741           |
| Additional grant provided in Q1 2009                         |  | (200,000)        |
| <b>Underlying deficit, excluding additional grants</b>       |  | <b>(150,259)</b> |
| Additional grant provided in Q1 2009                         |  | 200,000          |
| Additional grant provided in Q4 2009                         |  | 887,910          |
| Full-year “surplus”, after additional grants of £1.1 million |  | 937,651          |

Source: JHT management and BDO Analysis

## Detailed findings

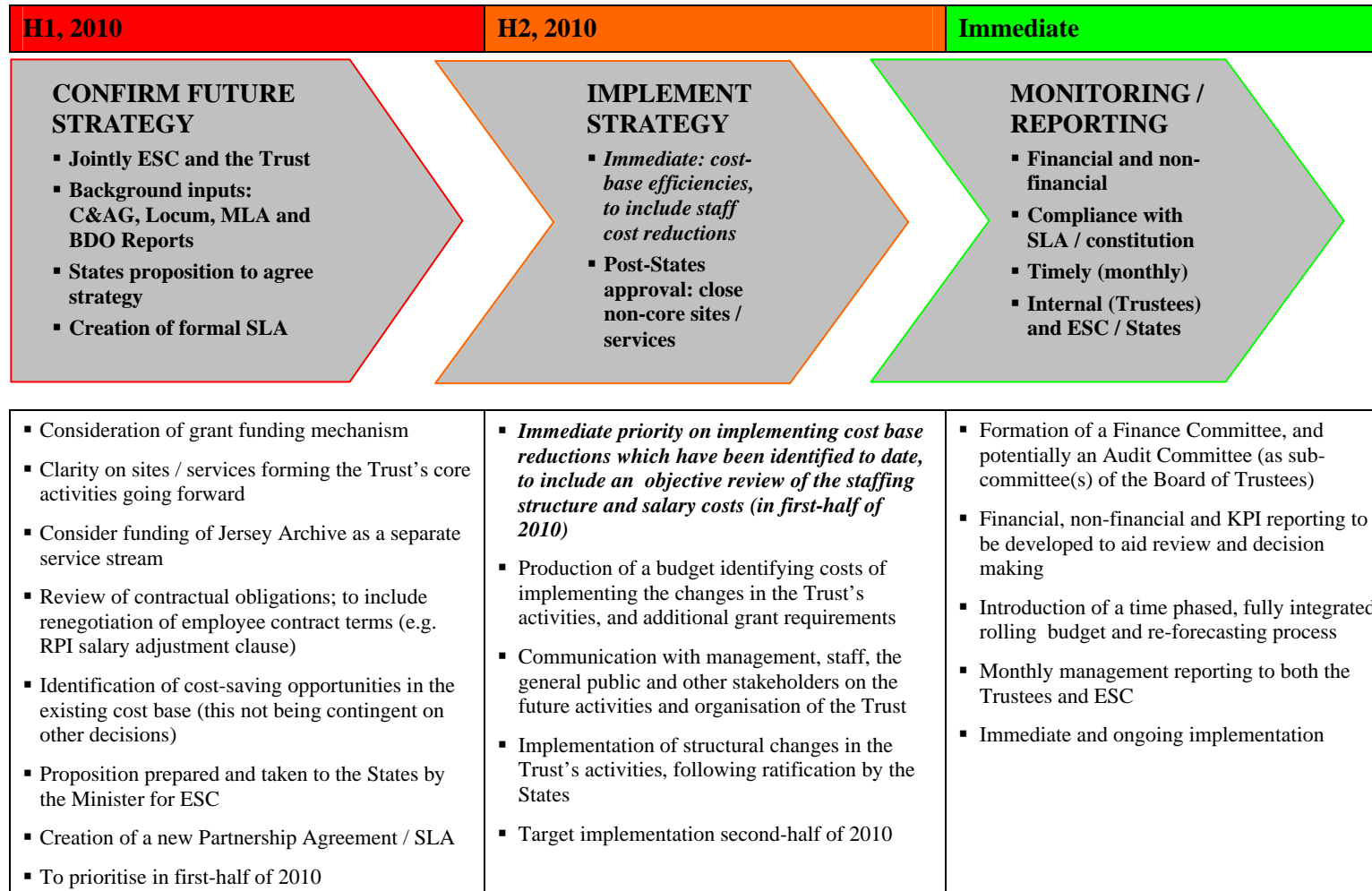
- In this Section 1 we summarise key findings from this review.
- Within each subsequent Section of the Report we have tabularised our key observations, the resultant risks and our recommendations, and these are cross-referenced within this Section.
- Note, in respect of 2009 we have analysed the result to end-Q3 2009, being the information available to us at the time of undertaking this review. The full-year 2009 deficit was estimated, at the time of drafting this report, to be circa £200,000, excluding any of the additional grant funding of £1.1 million provided in 2009.
- The observations and recommendations within this Report refer only to matters that we have identified as part of this review work, and is therefore not necessarily a comprehensive statement of all of the weaknesses that might exist or all of the improvements that might be made.
- All of the observations and recommendations made within this Report should be assessed by the Directors and Trustees of Jersey Heritage prior to any implementation, to ensure that their full commercial and other impacts are fully understood.
- A Part II to this Report will be issued during April 2010, and will review the cost savings identified by the Trust and other proposed structural changes to the Trust's activities arising from, amongst other things, the findings set-out in this Report.

## Timeline and next steps

- Before presenting the detailed findings, we have identified on the following page what we believe are the key stages in the development and implementation of an agreed strategy for Jersey Heritage, with illustrative timeline pending agreement between the Trust and ESC.
- Clearly timing is critical. We are aware that the agreed strategy is to be taken by the Minister for ESC to the States by way of a proposition, prior to Jersey Heritage being able to implement any significant changes in its activities. Thus, changes in services will not be able to be effected immediately, albeit we understand that other cost saving measures can be taken in the interim by the Trust.
- Jersey Heritage are aware of the requirement to make efficiency changes to its cost base at this juncture and as expeditiously as possible, which will likely include making a number of staff roles redundant, given that staff costs are the single largest cost to the Trust.



**Timeline and next steps (illustrative)**



| Issue  | Observations  | Comment / Recommendation   | Section   |
|--|---|--|---|
| <p><b>Jersey Heritage has continued as a going concern only as a result of ESC providing additional “bail-out” grant funding in 2009 totaling circa £1.1 million.</b></p>                      | <ul style="list-style-type: none"> <li>■ The Trust has exhausted its own financial resources and has no capacity to manage operating deficits or capital costs.</li> <li>■ Revenues continue to come under downward pressure as a result of declining tourist visitor numbers, a difficult economic climate and lack of capital investment.</li> <li>■ The Trust had nowhere to turn, other than to ESC, in seeking a solution to its immediate cash flow problems in 2009.</li> </ul>  | <ul style="list-style-type: none"> <li>■ The financial position has become unsustainable for Jersey Heritage and it is critical that a solution be found quickly.</li> <li>■ A medium to long-term strategy for the Trust must be determined as a priority, which considers the Trust’s annual grant requirements as well as its capital requirements.</li> <li>■ Inevitably ESC will need to provide additional funding to Jersey Heritage (over and above the annual grant) whilst it implements the [to be] agreed turnaround strategy. Quantum of the additional grant(s) will be dependent on timing of the decision on strategy, and the agreed level of service provision going forward.</li> </ul> | <p>Section 2, pages 16 to 19 and Section 7, page 71 onwards</p> |
| <p><b>Key issues facing the Trust were identified previously in a States proposition approved in September 2005, “Development of a Cultural Strategy for the Island”.</b></p>                  | <ul style="list-style-type: none"> <li>■ The 2005 paper highlighted a declining level of visitors to the Island, and a need for the Trust to cut services if States grants could not be increased.</li> <li>■ It is a factor of the complexities of the issues facing the Trust and the Island that a sustainable strategy has yet to be developed.</li> <li>■ Jersey Heritage manages a wide range of heritage assets on behalf of the States and the Societe Jersiaise, which would need to be managed elsewhere if the Trust were to reduce or withdraw its services.</li> </ul> | <ul style="list-style-type: none"> <li>■ The States, through ESC, need to determine those services that they require Jersey Heritage to provide going forward, and thus the grant required to support those services can be properly defined.</li> <li>■ Financial and other impacts (on the States or others) need to be modelled prior to short-term measures, such as site or service closures, being made by the Trust.</li> <li>■ Final strategy adopted must be sustainable in the medium to long-term to avoid similar issues arising again in the short-term.</li> </ul>   | <p>Section 3, pages 20 to 29</p>                                |
| <p><b>The grant provided by ESC is not clearly defined, in terms of the sites or services being supported. Financial and non-financial reporting by the Trust to ESC needs to improve.</b></p> | <ul style="list-style-type: none"> <li>■ ESC have little knowledge on the application of funds within the Trust’s activities (partly given previous reporting, which has not considered financial performance by individual site / activity).</li> <li>■ Annual audited accounts are historic; monthly management accounts and regularly updated budgets have not previously been prepared or circulated by the Trust to ESC.</li> <li>■ Non-financial information is too extensive and is not easily understandable.</li> </ul>  | <ul style="list-style-type: none"> <li>■ Management reporting should be monthly to provide a regular snapshot of the state of affairs of the Trust.</li> <li>■ Monthly [or quarterly] reporting with budget re-forecasts would provide an early warning of any impending cash shortages (to avoid surprises).</li> <li>■ KPIs would assist the Trustees and ESC understand the underlying business dynamics to a far greater extent.</li> <li>■ More frequent meetings between the Trustees and Directors of Jersey Heritage, and the Minister and Officers of ESC will be beneficial in the short-term.</li> </ul>  | <p>Section 4, pages 30 to 52</p>                                |

| Issue   | Observations   | Comment / Recommendation   | Section  |
|---|--|--|--|
| <p><b>Financial reporting and the provision of timely and reliable information to the Trustees and ESC can be significantly improved. The annual budget process relies on too many individual budget holders; ownership of budgets needs to rest with the Director and management team.</b></p> | <ul style="list-style-type: none"> <li>■ Annual financial statements do not properly record the full balance sheet position of all separate funds (including Restricted funds).</li> <li>■ Cash related to specific funds was used in 2008 / 2009 to fund the ongoing activities of the Trust as a whole, which appears to be in contravention of, for example, the terms of specific bequests i.e. the Sir Francis Cook Gallery. It is also contrary to the intentions of the AMF and F&amp;T funds.</li> <li>■ Budgeting is not time phased (e.g. the entire annual grant is recognised each year in January, on receipt), and nor is the budget updated on a regular basis – which would provide an “early warning system” for anticipated cash shortages.</li> </ul> | <ul style="list-style-type: none"> <li>■ We make various recommendations as regards the form, content and timeliness of financial (and non-financial) reporting going forward, to include presentation of budgets and the use of KPIs.</li> <li>■ Cash related to specific Restricted funds should be held in separate bank account(s) and ring-fenced away from the Unrestricted Fund and not used to fund the day-to-day operations of the Trust.</li> <li>■ Budget setting needs to rest with the senior management team, and not be overly delegated.</li> </ul> | <p>Section 4, pages 30 to 52</p>                               |
| <p><b>Jersey Heritage is not alone in its pursuit to preserve, protect and provide access to local Island heritage.</b></p>   | <ul style="list-style-type: none"> <li>■ There is a close working relationship between the Trust and the Societe, and to a lesser extent the National Trust.</li> <li>■ All of these charitable status organisations are competing for funding from the general public.</li> </ul>   | <ul style="list-style-type: none"> <li>■ The need for the Trust to diversify its funding base as far as possible is something that MLA will advise upon.</li> <li>■ However, interaction between the various local heritage organisations may be something that could jointly deliver some cost synergies as well as income generation, although this is clearly a difficult issue.</li> </ul>   | <p>Section 4, pages 44 to 46</p>                               |
| <p><b>The Board of Trustees needs to recruit at least two new members in February 2010.</b></p> <p><b>There is considerable reliance on the Finance Director.</b></p>   | <ul style="list-style-type: none"> <li>■ Messrs Crill and Le Brocq will retire as Trustees in February 2010, having each served two terms in office.</li> <li>■ Recruitment of new Trustees is required to ensure that the Trustee Board remains quored.</li> <li>■ The Finance Director will be key in achieving a successful restructure of the Trust’s operations and activities and in developing the financial and non-financial reporting.</li> </ul>  | <ul style="list-style-type: none"> <li>■ We are aware that the Trust has begun the search for new Trustees, and has published recruitment articles in the JEP.</li> <li>■ The Trustees and Directors will be supported by the newly appointed Honorary Financial Adviser, Mr Kevin Keen.</li> <li>■ The Honorary Financial Adviser will become a “sounding board” for the Finance Director, and will be best placed to assess the resilience of the finance function.</li> </ul>   | <p>Section 5, pages 53 to 55</p>                               |
| <p><b>Revenues are under increasing pressure and marketing spend has necessarily increased significantly to maintain / grow individual revenue streams.</b></p> <p><b>Trading activities are loss making overall.</b></p>   | <ul style="list-style-type: none"> <li>■ Revenue growth includes, for example, castle ferry income in 2008 and 2009; meanwhile, total marketing spend (excluding salaries) increased to circa £200k in 2009. We have not been able to properly assess the effectiveness of the marketing spend but observe that it is a material cost to the Trust.</li> <li>■ Management information has not previously allowed the Directors or Trustees to consider the “net contribution / loss” earned by each individual site or service. The operation of the various sites (the “trading” activities) is loss making overall.</li> </ul>   | <ul style="list-style-type: none"> <li>■ Effectiveness of marketing spend needs to be considered; not simply considering that spend as a percentage of total earned revenues, given (for example) the increases relating to new income streams, e.g. castle ferry ticket revenue (which should not require material increases in spend).</li> <li>■ Financial performance of each site / activity needs to be presented as management information to aid decision making.</li> </ul>   | <p>Section 6, pages 56 to 70 and Section 9, pages 92 to 93</p> |

| Issue  | Observations   | Comment / Recommendation  | Section                           |
|--|--|---|-----------------------------------|
| <p><b>The acquisition of the castle ferry service in 2008 for circa £503,000 provides a number of learning opportunities.</b></p>  | <ul style="list-style-type: none"> <li>■ Contract terms appear to have advantaged the vendor given their entire cost of vessel purchase was covered in addition to a goodwill payment.</li> <li>■ The financing of this acquisition was not appropriate, given it was (in effect) financed by the 2009 revenue grant from ESC (although we acknowledge that the intended finance lease funding was withdrawn).</li> <li>■ Costs of operating these vessels appear extremely high, and the useful economic lives of the vessels themselves require review.</li> <li>■ The rationale supporting the decision to acquire the castle ferry service, and to enter into the specific agreement terms, could have been more robustly documented.</li> </ul> | <ul style="list-style-type: none"> <li>■ Significant capital decisions should require approval by ESC, given the importance of the grant funding (under a new Partnership Agreement / SLA).</li> <li>■ Ongoing operating costs need to be considered as part of any capital purchase decision (we note the same issue with properties, whereby the Trust could acquire a property for little or no upfront consideration, but potentially with large contingent liabilities in terms of ongoing and/or future repair and maintenance obligations).</li> <li>■ Funding sources for capital acquisitions need to be secured and utilised; this would negate the need to use revenue funding and the consequential appeal for additional grant funding from ESC.</li> <li>■ All communications that are material in terms of specific decisions should be fully documented.</li> </ul> | <p>Section 7, pages 75 to 78</p>  |
| <p><b>Cash held in respect of distinct funds has not previously been ring-fenced.</b></p>  | <ul style="list-style-type: none"> <li>■ As noted previously, cash held in specific funds, e.g. AMF, F&amp;T and Sir Francis Cook, have been utilised in 2008 / 2009 to fund trading activities and overall running costs of the Trust.</li> <li>■ Thus, the liquidity position of the operations of the Trust was worse than reported and understood by ESC.</li> <li>■ Use of restricted cash is likely to contravene agreements surrounding establishment of specific funds, and bequests.</li> </ul>   | <ul style="list-style-type: none"> <li>■ All cash held for specific funds, and relating to specific bequests, should be ring-fenced and held in separate bank accounts.</li> <li>■ Cash held for specific funds should be utilised solely in fulfilment of the objects of the specific fund or bequest.</li> <li>■ We note that the “bail-out” grants provided by ESC to Jersey Heritage in Q4 2009 included cash to reinstate certain of the restricted funds.</li> </ul>  | <p>Section 8, pages 79 to 80</p>  |
| <p><b>Our review has identified the net contribution from individual sites and services, and has thus provided financial information outside of existing functional service lines.</b></p> | <ul style="list-style-type: none"> <li>■ Reporting by site / service allows a fuller understanding of the financial performance of the Trust and its various activities to be properly understood.</li> <li>■ The Trust operates with a “trading” deficit each year; thus, it relies on, in particular, the annual ESC grant to fund trading operations as well as the other non-trading operations, for example Jersey Archive.</li> <li>■ An understanding of revenue and performance drivers should include calculating the value of “free” admissions i.e. the value of school children and OAP admissions.</li> </ul>   | <ul style="list-style-type: none"> <li>■ As noted previously, management information needs to be produced showing the financial result of individual sites and activities to best inform the Trustees and ESC.</li> <li>■ This analysis allows an understanding of any future site closure impacts from a financial perspective.</li> <li>■ KPIs need to include analysis of free admissions, amongst other things, to enable the Trustees and Directors to fully understand the financial impact of free admission policies. This is part of a wider need for KPI monitoring.</li> </ul>   | <p>Section 9, pages 91 to 139</p> |

| Issue  | Observations   | Comment / Recommendation  | Section                             |
|--|--|---|-------------------------------------|
| <p><b>The users of the Archive are not paying for their use of the services. An argument exists that that the funding of the Archive should be provided centrally.</b></p> | <ul style="list-style-type: none"> <li>■ States departments (and Parishes and certain utilities) have an opportunity to increasingly use the Archive as a cost effective solution for themselves, whilst adding to the financial burdens of the Trust.</li> <li>■ Increasingly, backlogs are one impact of the increasing use of the Archive.</li> </ul> | <ul style="list-style-type: none"> <li>■ Consideration should be given to requesting separate central funding for the Archive, independent of the ESC grant.</li> </ul>   | <p>Section 10, pages 140 to 145</p> |
| <p><b>Central costs need regular and close scrutiny.</b></p>   | <ul style="list-style-type: none"> <li>■ Central costs are significant at &gt;£500,000 per annum, and require close scrutiny to identify areas of potential saving.</li> </ul>   | <ul style="list-style-type: none"> <li>■ We recommend that the Finance Director undertake a detailed review of all central costs on an ongoing basis, to include effectiveness of spend as well as a review of the procedures governing these costs i.e. the use of quotes and purchase orders as appropriate.</li> </ul>                         | <p>Section 11, pages 146 to 149</p> |
| <p><b>Staff costs are significant and account for between 60% and 70% of the total cost base of the Trust.</b></p>   | <ul style="list-style-type: none"> <li>■ A review should be undertaken to critically review current staffing levels.</li> <li>■ Some roles would appear to have scope for savings, either on a total headcount basis or from a seasonality perspective.</li> </ul>   | <ul style="list-style-type: none"> <li>■ The review of staff costs on a detailed line-by-line basis should be undertaken to ensure that the staff base is appropriate to the size of the organisation and, for example, that seasonal staff are used where appropriate.</li> <li>■ Staff contract terms should be critically reviewed.</li> </ul> | <p>Section 12, pages 150 to 173</p> |

## Funding mechanism

- We have considered the funding mechanism in place in terms of the grant receivable by the Trust from ESC. A “fixed” amount of grant is receivable by the Trust each year in January, circa £2 million currently. The difference between the value of the grant received and the total costs of operating the Trust are needed to be funded via self-generated income in the Trust.
- Under the current funding mechanism (together with the Trust’s total lack of reserves) any inability on the part of the Trust to earn sufficient additional income to meet its costs and liabilities forces it to turn to ESC for additional grant funding, as happened in 2009 when ESC provided an additional circa £1.1 million of grants.
- Clearly there are difficulties in approaching ESC during any given period to request additional money, as their own budget is tightly managed and there are no surplus unallocated funds. Thus, an alternative funding mechanism might be more appropriate.
- An alternative funding mechanism may be for the Trust to prepare a budget annually, which is agreed by both parties. Instead of the grant being provided upfront and then self-generated income being required to fill the gap between that and the total cost base of the Trust, the gap is filled by ESC – i.e. it would be acknowledged that the Trust will incur certain costs in providing the agreed level of service, and in return the States would fund the difference between the costs of operating those services and the amount of self-generated revenue collected directly by the Trust.
- This approach requires a great deal of trust between the parties, and relies of the Trust managing its cost base aggressively and preparing robust budgets each year. However, it does provide some flexibility to ESC that might not exist currently in that the grant level is not fixed at the beginning of the year, but rather it is estimated within a range and can be drawn-down during the year.

## Barriers to restructure?

- During this review we have identified certain potential barriers to an effective restructuring, which need to form a part of the agreed solution. In particular:
- A large proportion of the total cost base of the Trust relates to staff costs (between 60% and 70% of total annual expenditure on the Unrestricted Fund in the review period). At present the contractual terms of employment for all staff include automatic RPI-linked salary increases, i.e. the increases do not consider affordability. The Directors are therefore not able to effectively control this significant area of total spend, and staff employment contracts would therefore appear to need to be re-negotiated, to provide the Directors with greater control of this cost.
- Whilst a NGO, the Trust has inherited certain obligations that are consistent with a States department, for example pension scheme obligations. Again, the Directors need the power to determine whether specific roles should include pension entitlement, rather than it being an automatic right.
- Clearly any successful restructure requires the engagement and support of the wider management and staff of the Trust, for many of whom the process may at first be unsettling.

## Proforma statement of income and expense

- The table on the following page provides a proforma statement of income and expenses, split between “trading” and “non-trading” activities. This analysis has been developed for the purpose of this review and was not previously produced by the Trust.
- Throughout this Report we make comment on the proforma figures as presented, reconciling them back to the statutory accounts of the Trust as appropriate.

**Proforma statement of income and expense**

|  |                     | <b>Audited<br/>FY 2006A</b> | <b>Audited<br/>FY 2007A</b> | <b>Draft<br/>FY 2008A</b> | <b>Unaudited<br/>Q3 2009A</b> |
|--|---------------------|-----------------------------|-----------------------------|---------------------------|-------------------------------|
|  |                     | £                           | £                           | £                         | £                             |
| <i>“Non-trading” activities</i>  |                     |                             |                             |                           |                               |
| Grants received  |                     | 1,909,424                   | 1,949,079                   | 2,043,758                 | 2,277,522                     |
| Bank interest income   |                     | 41,065                      | 35,930                      | 19,223                    | 916                           |
| <i>Total non-trading income</i>  | <i>A</i>            | <i>1,950,489</i>            | <i>1,985,009</i>            | <i>2,062,981</i>          | <i>2,278,438</i>              |
| Learning   |                     | (315,887)                   | (343,386)                   | (404,486)                 | (271,769)                     |
| Central costs  |                     | (477,769)                   | (547,586)                   | (545,955)                 | (476,957)                     |
| Societe Jersiaise grant  |                     | (41,266)                    | (41,266)                    | (41,266)                  | (41,266)                      |
| <i>Total cost centres</i>  | <i>B</i>            | <i>(834,922)</i>            | <i>(932,238)</i>            | <i>(991,707)</i>          | <i>(789,992)</i>              |
| Jersey Archive   |                     | (355,179)                   | (389,098)                   | (348,017)                 | (288,858)                     |
| Historic buildings   |                     | (63,464)                    | (60,153)                    | (71,528)                  | (46,082)                      |
| <i>Total other services</i>  | <i>C</i>            | <i>(418,643)</i>            | <i>(449,251)</i>            | <i>(419,545)</i>          | <i>(334,940)</i>              |
| <b><i>“Non-trading surplus”</i></b>  | <b><i>A+B+C</i></b> | <b><i>696,924</i></b>       | <b><i>603,521</i></b>       | <b><i>651,728</i></b>     | <b><i>1,153,506</i></b>       |
| <b><i>“Trading” deficit</i></b>  |                     | <b><i>(659,146)</i></b>     | <b><i>(638,594)</i></b>     | <b><i>(1,027,010)</i></b> | <b><i>(358,979)</i></b>       |
| Unallocated  |                     | (17,871)                    | (7,607)                     | (11,401)                  | (7,412)                       |
| Total unrestricted fund surplus/(deficit)                                    |                     | 19,907                      | (42,680)                    | (386,683)                 | 787,115                       |
| Designated fund deficit (net of reclassification adjustments)                |                     | -                           | -                           | (1,690)                   | (1,144)                       |
| Restricted fund surplus/(deficit) (net of reclassification adjustments)      |                     | (162,938)                   | (15,257)                    | 104,397                   | 76,476                        |
| Heritage fund (deficit)/surplus (net of reclassification adjustments)        |                     | (1,053,297)                 | (201,707)                   | (217,200)                 | 17,953                        |
| <b>Total reported (deficit) / surplus per accounts / management accounts</b> |                     | <b>(1,196,328)</b>          | <b>(259,644)</b>            | <b>(501,176)</b>          | <b>880,400<sup>1</sup></b>    |

Source: Audited accounts, management information and BDO analysis

<sup>1</sup> Full year forecast deficit for 2009 is c.£200k, once Q4 result is accounted for but excluding any additional grants provided by ESC in 2009

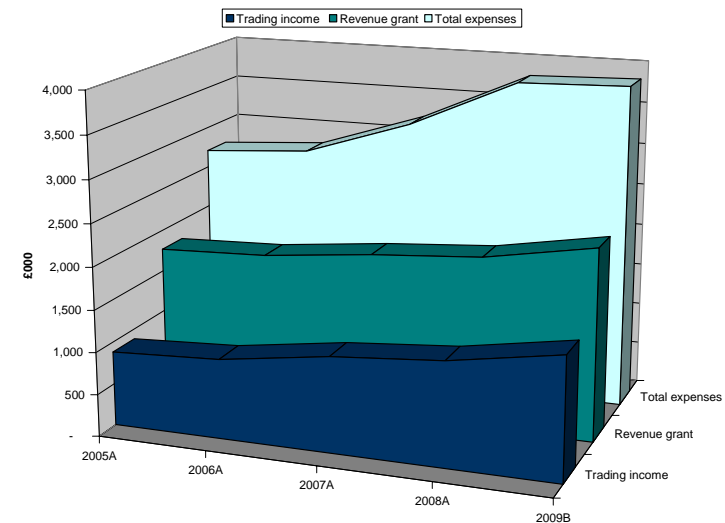
## 2 Background

- Jersey Heritage was constituted and registered in the Royal Court of Jersey on 3 June 1983.
- It is part funded by a grant from the States, which is administered by ESC (and prior to that by its predecessor, the Education, Sport and Culture Committee).
- Whilst Jersey Heritage is managed independently of the States of Jersey, the States' Financial Directions require certain procedures and controls to be adopted by departments advancing grants to non-States organisations.
- The Trust is non-profit making and is classified as a charity by the Association of Jersey Charities, of which it is a member.
- We have been instructed to perform this financial and business review of Jersey Heritage by ESC. ESC is keen to develop a deeper understanding of both the operations and current financial position of Jersey Heritage in order to help strengthen its relationship with the Trust, and also enhance its oversight given the significance of the annual revenue grant (circa £2m) and the current financial difficulties of the Trust, which we discuss further in this Report.
- There are a number of differing views about the major causes of the Trust's current "fragile" financial footing, and it is not appropriate for us to comment on all of those in this Report. However, an understanding of the key events over recent years, some of which prompted this review, is important in the context of our work so that we can explain in detail the financial and operating consequences.
- We set out below some of the issues that have prompted this review:

### A declining financial performance

- The pro-forma summary of income and expense (page 15), records that the Trust has reported a deficit since 2006. The 2005 figures also recorded a deficit.
- The current forecast deficit on the Unrestricted Fund is expected to be circa £150,000 in FY2009, before additional grants of circa £1.1m being made by ESC to the Trust in this period.
- This annual (structural) deficit has placed the organisation under increasing financial pressure as the obvious consequence has been a depletion in the Trust's underlying asset base to the extent that the Trust's solvency and liquidity have come under significant pressure, and further funding has had to be injected into the Trust by ESC during the final quarter of 2009.

#### Trend in trading income, grant income and total expenses



Source: BDO analysis



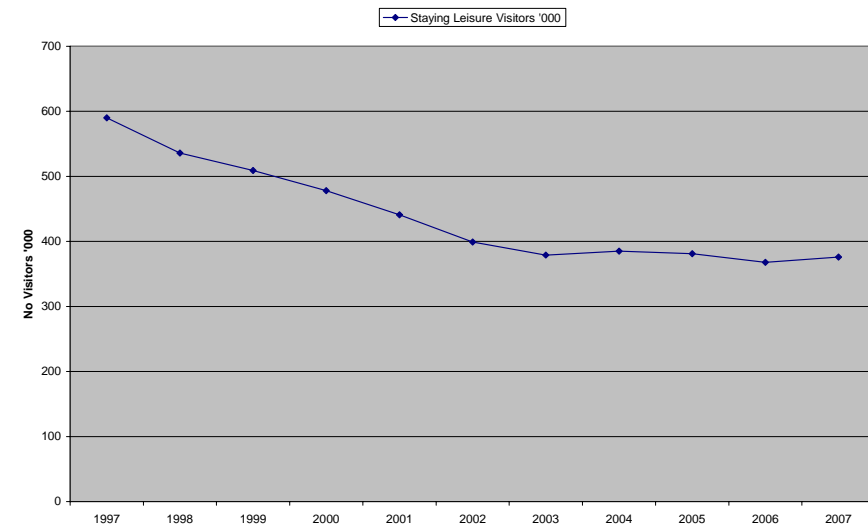
## A changing environment

- As an organisation operating heritage sites as tourist attractions, Jersey Heritage has been affected by the decline in the number of visitors to the Island and the profile of those visitors.
- The decline in the number of staying leisure visitors coming to the Island is shown in the chart opposite, and shows an approximate one third decline between 1997 and 2007.

## Access to Elizabeth Castle

- A much publicised contributory factor to the Trust's current financial position is the purchase of the amphibious vehicle service between West Park and Elizabeth Castle.
- For two years, between the end of 2004 and December 2006, the service to Elizabeth Castle was operated by a private contractor, without a contract due to the decreasing viability of the route, meaning that this private contractor was unwilling to enter into a new agreement.
- A new operator, with which a contract was signed on 21 December 2006, did not deliver according to its intentions and the contract. A protracted process to maintain the access to the Castle ensued and eventually resulted in Jersey Heritage's acquisition, from the new operator, of both the amphibious vehicles and the premises by way of a payment of £503,000 during 2008. This included a severance payment to the new operator to break the 5-year contract of circa £121,000.
- The Trust principally funded this acquisition by obtaining a short-term overdraft, with an interest rate of 2% over base. This overdraft was cleared when the 2009 ESC grant was received, and thus the acquisition of the amphibious vehicle service was (in effect) funded from the annual revenue grant rather than by a separate capital grant or some other form of borrowing.

## Visitor trends



Source: States of Jersey statistics unit

- The spending in advance of circa 25% of the 2009 annual revenue grant did not, at that time, prompt the Directors and Trustees to make adjustments in the Trust's business to reduce the cost base and attempt to 'balance the budget' for 2009. This is as a result of the following:
  - Jersey Heritage had an offer of a finance lease, on what it considered to be favourable terms, which would have been taken up at a later date had the offer not been withdrawn both as a result of the declining economic climate, and a change in lenders' procedures for the advancing of debt; and
  - Jersey Heritage, with the knowledge of ESC, resisted making any site or other service cuts, pending further discussions with ESC and a political decision.

### Access to capital funding

- Whilst the long term enhancement or development of Jersey Heritage's operated sites is outside the scope of this review, it is clear that the operational finances are affected by the limited access to funding for capital projects or large scale refreshments.
- With the exception of the restoration of Mont Orgueil, which was completed in 2006, all sites have remained relatively unchanged for the last ten years or more.
- Without a means to create additional demand from local visitors and repeat visitors (for example, by refreshment of displays, new content or new facilities at individual sites), the sites are less able to mitigate the negative effects of declining tourist visitor numbers by encouraging more local repeat custom.

### A serious liquidity issue

- Despite the one-off increase of £200,000 to the revenue grant paid by ESC to the Trust in January 2009 (which was, we understand, paid to create a "breathing space" for the Trust, but was recognised as not being anything other than a short-term fix), Jersey Heritage faced a cash crisis at the end of Q3 2009 and was forced to turn again to ESC with a request for cash. Prior to the additional request for funding in Q3, Jersey Heritage had resisted making any site access or other service cuts, again pending further discussions with ESC and a political decision.
- The Finance Director at Jersey Heritage has confirmed that the £200,000 additional grant in January 2009 was agreed upon as the best estimate of what was required by the Trust at that point in time in order to maintain its current services. It also assumed that separate third-party finance lease funding was to be provided in respect of the castle ferry service acquisition, which subsequently was unable to be secured; we discuss this elsewhere in the Report and the resultant impacts.

- Although the Trust had managed to secure short-term borrowings, being the overdraft, at the end of 2008, this was repaid in January 2009 when the ESC annual grant was received. The overdraft facility expired in early 2009 and, contrary to popular understanding, the Trust has neither operated, nor had access to, a bank overdraft (or other form of debt) since then.
- At the same time as entering into the overdraft arrangement, negotiations had been taking place in respect of a sale and finance lease-back arrangement as a longer term solution to the funding of the purchase of the castle ferry service. This was subsequently withdrawn as a result of changing financial markets and was not available to the Trust as an option to "reinstate" the part of the 2009 grant that had been utilised to repay the bank overdraft.
- An additional amount of circa £890,000 has been paid by ESC to Jersey Heritage in the form of further "bail-out" grants between October and December 2009, in order to ensure that Jersey Heritage could continue as a going concern and thus meet its liabilities as they fell due until the end of 2009. This additional "bail-out" grant has resulted in certain obligations being placed on the Trust, which we consider later in this Report.

| Observation   | Issue   | Recommendation   |
|---|---|--|
| <p><b>The Trust has run-down its own financial reserves as a result of running at a deficit over the review period.</b></p>   | <ul style="list-style-type: none"> <li>■ There is no capacity for the Trust to incur one-off or exceptional cost items, to undertake capital projects or to absorb further downward pressure on results without again needing to obtain additional grant funding and/or reducing its services and thus its cost base.</li> <li>■ There are no apparent opportunities for increasing revenues to the extent that will offset the issue.</li> </ul> | <ul style="list-style-type: none"> <li>■ A medium or longer-term solution to the current funding and liquidity problems existing in the Trust needs to reflect the fact that the Trust does not have any capital funds. We understand that there are existing and future capital priorities for the Trust and the funding of these will therefore need to be determined and provided for.</li> <li>■ In addition, any change to the Trust's activities will be managed over a period of time and therefore cost savings will not be immediate; that change programme will therefore likely need to be funded through some additional form of finance, given that the Trust does not have its own cash reserves to utilise.</li> <li>■ We recommend that the additional funding requirement be modelled as soon as possible following a decision being made on the Trust's level of future service provision, and the source of that funding be defined.</li> </ul> |
| <p><b>The Trust's finances have come under considerable pressure as a result of, amongst other things, a declining tourism industry and other pressures on revenues, an increasing cost base and a lack of access to capital funding.</b></p> | <ul style="list-style-type: none"> <li>■ As above, the continual decline in tourist numbers, coupled with increased difficulty in attracting repeat local custom without making further capital investment in the sites will inevitably result in trading revenues continuing to come under pressure.</li> </ul>  | <ul style="list-style-type: none"> <li>■ As above.</li> </ul>  |
| <p><b>An additional grant of £200,000 was received by the Trust in January 2009, and a further £890,000 has been provided to the Trust by ESC in Q4 2009, taking the total amount of the grant in 2009 to £3.2 million.</b></p>               | <ul style="list-style-type: none"> <li>■ The additional grants paid in 2009 represent a short-term fix rather than a longer-term solution to the Trust's liquidity and funding issues.</li> <li>■ The additional grants are considered one-off by ESC, and we are advised that there is no ability for ESC to make any further additional grants of this nature or quantum.</li> </ul>  | <ul style="list-style-type: none"> <li>■ As above, the need for additional funding (over and above the annual grant) needs to be robustly determined by Jersey Heritage as a priority, once the timetable for agreeing future service levels is defined.</li> <li>■ ESC and Jersey Heritage need to determine the basis behind any additional funding during the transitional period or otherwise; for example, whether any additional funding is by way of a grant or a loan.</li> </ul>  |

### 3 Activities of Jersey Heritage

#### Heritage defined

- Heritage can be defined in its widest sense as “... *what we have inherited from the past, value and want to hand on to the future*”<sup>2</sup>.
- Jersey Heritage has previously communicated, through its annual business plan and other channels (including the media), the issues affecting heritage and culture in the Channel Islands, all of which appear difficult issues to manage / resolve.
- The proposition approved by the States for the “Development of a Cultural Strategy for the Island” on 20 September 2005 recognised the major issues, summarised as follows:
  - Significant States funding of capital developments from the mid 1990s to mid 2000s but insufficient adjustment to revenue funding to reflect this.
  - Funding levels have been set at or not much above the minimum necessary for survival which has hampered development.
  - A declining level of visitors to the Island has reduced the potential for the generation of income that can be raised from sources other than the Government.
  - Service cuts must be accepted if the level of funding provided by the States cannot be increased, which may result in the loss of services which are the most preferred for preservation and enhancement.

- It is testament to the complexity of any solution to these matters that no wholesale strategy has yet been found and implemented. As a result some themes are recurring in this Report.
- Jersey Heritage’s financial position has, in the intervening period since September 2005, become increasingly fragile, and it has continued to struggle to put in place appropriate arrangements in respect of its occupation and guardianship of some States owned / funded buildings, in particular the Archive and the Maritime Museum. We comment in detail on these issues later in the Report.
- During 2009 the financial issues impacting the Trust have reached a critical point, with the cash flow issues seriously threatening the ability of Jersey Heritage to continue as a going concern.

#### Evolution of Jersey Heritage’s activities

- Jersey Heritage’s activities have expanded over time, albeit in a manner consistent with the objectives that it was set-up to achieve. The Trust now acts as operator of six major heritage sites in the Island, which includes management of the artefacts and collections housed in the sites:
  - Jersey Museum
  - La Hougue Bie
  - Hamptonne
  - Mont Orgueil
  - Elizabeth Castle
  - Maritime Museum and Occupation Tapestry Gallery

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<sup>2</sup> Report by Kate Clark Associates titled “Valuing the Heritage of the Channel Islands”, dated 18 August 2008

- Jersey Heritage also operates the Jersey Archive, the Sir Francis Cook Gallery and is responsible for conserving a portfolio of old fort and tower buildings, providing public access and funding the conservation programme through letting these sites as holiday let accommodation.
- Jersey Heritage undertakes various other activities which include learning and development programmes for Island school children.
- The individual sites and activities of Jersey Heritage, and the financial result arising from each core activity, are discussed in detail elsewhere within this Report.
- The table opposite sets out a high-level overview of the evolution of the Trust, beginning with its formation by the States to manage the States heritage business (previously undertaken by the Public Works Department which employed an Arts and History Officer) and bring together the States owned public collection with that of the Societe. The table opposite focuses on the evolution of the operated sites and attractions.
- In essence, the Trust has collected over a period of time a number of historic, heritage but ‘difficult’ assets to operate. Difficult in that they are historic sites with planning constraints and possible public accessibility issues, for example limited or no adjacent parking. These factors impact the opportunities at certain sites and can affect the attractiveness of a site to visitors.
- Essential visitor revenues at these sites and attractions have necessarily been under pressure throughout the period given the well-publicised decline in tourist numbers visiting the Island.

### Principal events in the evolution of Jersey Heritage

| Year | Event   |
|------|---|
| 1981 | Jersey Heritage is founded as an independent organisation, managing the Jersey Museum and La Hougue Bie (and their associated artefacts and collections) on behalf of the Societe Jersiaise   |
| 1983 | Act of Incorporation of Jersey Heritage Trust   |
| 1992 | Jersey Museum (as it currently is) opens; previously the smaller museum was housed in No.9 Pier Road. New Museum is funded by a grant of c.£4m from the States  |
| 1993 | Hamptonne opens and is operated on behalf of the Societe Jersiaise by Jersey Heritage; ultimate owner is the National Trust (this opening follows a c.4-year redevelopment of the site, funded by the Societe Jersiaise in the amount of c.£1m) |
| 1994 | Jersey Heritage assumes certain management roles relating to Elizabeth Castle and Mont Orgueil from the, as it was, Public Works Department   |
| 1996 | Jersey Heritage assumes full management responsibility for Elizabeth Castle and Mont Orgueil<br>Occupation Tapestry Gallery opens, funded by the Liberation 50 Committee  |
| 1997 | Maritime Museum opens, which had been funded by the TDF   |
| 1999 | TDF allocate a grant of £3m in respect of the Mont Orgueil project; this project runs through until 2006  |
| 2000 | Jersey Archive opens  |
| 2003 | Reduction in staff and public opening hours at the Archive as a result of funding constraints.  |
| 2005 | Forts and Towers project launches Heritage Lets, being holiday accommodation in various States-owned heritage sites around the Island (again, principally funded by the TDF)  |
| 2006 | Re-opened the newly refurbished Mont Orgueil castle   |
| 2008 | Jersey Heritage acquire the amphibious vehicle service to Elizabeth Castle from the operator  |

*Source: Discussions with the Director, various documents provided by JHT and BDO analysis*

- It has been explained to us by management that Jersey Heritage was set-up in “... a more freely spending political regime ...” and as such was able to benefit from opportunistic growth, in areas consistent with the original intentions for the Trust. For example, the Forts and Towers scheme had been discussed for many years and became a reality much later when the funding was available from the TDF.
- These opportunities, related both to the availability of funding and the identification of appropriate sites (for example, the Maritime Museum) in part account for the significant increase in the Trust’s activities in the 10-year period to 2006, during which time Jersey Heritage also assumed full management responsibilities for the two castles (undertook a major redevelopment of Mont Orgueil) and opened the Jersey Archive.
- There was not, as we understand it, a formal long-range strategic plan based on the objects of the Trust set out in its constitution at the time of developing the activities of the Trust through the 1990s and 2000s, again due in part to a different economic and financial climate existing at that time. All growth activities were guided by the formation documents at the highest level and not expanded into a detailed strategic development plan.
- Thus, with revenues now coming under pressure Jersey Heritage appears to be facing a recurrent (or “structural”) funding shortfall.
- With the economic climate having changed, a significant fall in the number of staying visitors in the Island (with a corresponding reduction in the level of off Island visitor revenues at the various sites and attractions) and a ‘drying-up’ of previously available funding sources, for example the TDF, the financial issues that the Trust now faces are significant and a sustainable strategy needs to be developed.

## Jersey Heritage’s Mission

- Jersey Heritage’s mission is consistent with its Objects, which are based on the Law under which the Trust was formed and are set out in detail on page 30. The mission can be summed up by this statement extracted from the 2009-2013 business plan:

*“To help everyone to protect, discover and enjoy learning about Jersey’s Heritage.”*

- The work undertaken by the Trust follows four principles<sup>3</sup>, which are summarised below.

### **Guardianship**

- Guardianship represents the protection of Jersey’s archives, collections and historic environment.
- Jersey’s archives include States records which are catalogued and stored at the Jersey Archive as required under the Public Records (Jersey) Law 2002, as well as collections of the Channel Islands Family History Society. Important records from the Parishes and various States controlled utilities, such as Jersey Gas and Jersey Water, are also stored here. We have been advised that the backlog of cataloguing of records has grown to in excess of 20-years during 2009 (based on current resourcing levels), which seriously undermines the ability of the Trust to deliver its objectives of guardianship.
- Jersey’s collections of art, artefacts and other historical records were originally managed by the States directly together with the Societe Jersiaise (the “Societe”), which was responsible for a public museum until 1981. These collections were taken over by Jersey Heritage under an agreement dated 2 November 1987.

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<sup>3</sup> Business Plan 2009 - 2013

### *Discovery*

- Promotion of the six heritage visitor attractions to inspire learning about Jersey's heritage.
- Access to information about the collections and archives managed by the Trust is much improved following investments in IT infrastructure. Anyone can now access the catalogue, although the system is not yet capable of online viewing of archive records, for example. Further IT developments may create additional income streams, although investment would be required in order to deliver this.
- Commercial activities, such as the hire of heritage sites as venues for corporate events, weddings and other parties, have increased the number of people who can enjoy Jersey's heritage sites.
- The provision of education services for school children and other age groups supports the public programme of exhibitions, events and publications.

### *Community*

- The involvement of the community is significant with in excess of 4,500 hours of volunteer time contributed in 2008, with 2009 on track to exceed this.
- The business community is more difficult to target, particularly in the current economic climate where sponsorship is scarce. There are specific indicators that the well publicised financial issues may be affecting the willingness of local businesses to provide support, either financial or non-financial.

- The relations with other local heritage and cultural organisations are never easy, not least because in this financial climate many of these entities, as well as other organisations such as Durrell, are seeking out funding from the same limited "pool", in competition with each other.

### *Sustainability*

- The strategy of Jersey Heritage should be a sustainable one that supports the strategic aims of the States and achieves value for money from the spending of public money, whilst being transparent and accountable.
- The overall objective of sustainability includes a number of other areas that the Trust works to achieve on a daily basis such as a safe and supportive working environment, investment in people development and combining different expertise on the Board of Trustees.
- Financial sustainability is by far the most important part of this objective, and indeed the others, as it underpins the existence of the Trust and its ability to deliver those other objectives.
- It follows, therefore, that in order to achieve this, a clear strategy and detailed action plan will need to be agreed between ESC (which may be acting as the States department responsible for delivery of a strategy approved by the States rather than on its own account as the sponsoring department of cultural organisations) and the Board of Trustees. It is our intention that this Report informs that process as far as possible.

### Monitoring of achievement of Trust principles

- A structure for financial and non-financial reporting to capture and monitor the performance of the Trust has evolved over the years. Objectives are analysed as SMART (being Specific, Measurable, Achievable, Realistic and Timely) in some instances, although not all.
- Financial reporting has been designed along “functional” lines and has not readily facilitated an understanding of the profitability of individual sites or services. For example, expenses have previously been reported on a total basis according to whether they form, for example, part of “sites and collections”, “learning and business development” or “management and administration”.
- We have undertaken an exercise to re-analyse the figures for the purposes of this Report, presenting a series of financial proforma which are intended to provide information about the performance of the individual sites together with the “trading” operations as a whole. This assists in considering the ability of Jersey Heritage to generate income outside of its grants and fees earned from the States, and the costs associated with doing this.
- Non-financial reporting is comprehensive and reflects the stated principles. The information is however difficult to interpret and should be redefined as part of the agreement of a new strategy between Jersey Heritage and ESC.

### The value of heritage

- Whilst the scope of this Report relates primarily to the financial circumstances of the Trust, it is also important to consider the value of heritage to people, which is not a variable that can be easily, if at all, quantified or measured – it is the intangible value.
- In order to direct their thinking, Jersey Heritage engaged Opinion Leader to undertake a research project exploring the public value of the organisation. A summary of the main findings of that report is provided below:
  - As the pace of change in Jersey increases, Jersey Heritage’s role as guardian of history grows in importance.
  - Key strengths of the organisation include a generally positive reputation (although there are now indicators that certain interest groups, such as potential sponsors, may be adversely affected by the Trust’s well publicised financial difficulties), expertise and support of tourism.
  - There are also a number of public values which it is seen to potentially offer, being a sense of community and pride, preservation, information and education, bringing history to life and encouraging family time.
  - Many groups however find it difficult to identify Jersey Heritage’s unique selling point, and also feel that it is an expensive organisation that is slow to change.
- The positive and negative messages arising from this review have helped guide the Trust’s approach to its business and marketing. However, we understand that as a result of uncertainties arising from the financial difficulties, it has been difficult for the Trustees and Directors to focus on the longer term future for much of 2009.



### States Statistics Unit – Survey on Heritage in Jersey

- In April 2009, the States Statistics Unit undertook a survey about heritage in Jersey, which was answered by over 1,000 people. Some of the important results in the context of observations included in this Report are set out below:
  - 61% of people might be encouraged to visit more (compared to current frequency of their visits) if there were new exhibits or displays. 63% of people would visit more if admissions prices were lower.
  - 82% of people agreed that passing on heritage to future generations is “very important” and 76% considered it “very important” to retain Jersey’s character and culture.
- It is apparent based on the sample surveyed that the Jersey public value heritage. However, these opinions or desires in an abstract sense can be placed in context by considering responses to a question asking which factors would encourage more frequent visits to heritage sites (compared to an individual’s existing levels of participation). The responses show that the cost of undertaking these activities limits the amount to which they participate.
- These results are reflective of the dilemma currently facing ESC, and Jersey Heritage itself, in that the activities of the organisation have not been sustainable at current levels for some time, but all parties have had a strong desire to retain the current site and service offer until a firm strategic decision has been taken.
- Strategic decisions have been delayed for a number of reasons. On ESC’s part, there has been a lack of detailed understanding of the issues and financial position of the Trust in addition to a political desire not to make a decision which is not fully informed, and which clearly has longer-term consequences. On Jersey Heritage’s part, decisions have been deferred in part to reflect the wishes of

ESC as the main funder, and in part to avoid site closure and redundancy.

### States Economics Unit – Economic Significance of Heritage

- In addition, an introductory note on the economic significance of heritage was prepared by the States Economics Unit in April 2009. The key themes from this paper are included below:
  - The tangible benefits of heritage related activities (such as contribution to Jersey’s measure of economic benefit, “Gross Value Added” or “GVA”) represent an underestimate of the contribution of heritage to Jersey’s economy.
  - The intangible benefits are educational, social and cultural and by definition are difficult to quantify.
  - Placing heritage activities in the context of the economic objectives of the Island being economic growth, employment opportunities and low inflation; productivity of the heritage sector is thus important in terms of making efficient use of resources, particularly those with no other economic use (an example is the Forts and Towers programme, where unused assets have been exploited for both economic and heritage objectives. However, when considered in terms of payback period, the capital investment must not be ignored. In this case, Jersey Heritage funded the development with a special grant from the Tourism Development Fund.)
  - Tangible impacts of heritage include the number of people employed. (Given that staff account for 60% to 70% of total expenses, and that between 60 and 70 permanent staff are employed by the Trust, this is likely to be significant.) Other spend will give rise to a proportion of leakage outside the Jersey economy, as is typical in an Island economy where

raw materials are limited, and other goods are not generally manufactured locally.

### **Accreditation as a measure of performance**

- Jersey Heritage seeks to comply with national standards set by the applicable UK body across its range of sites and activities. Whilst there are no mandatory requirements for the Trust to do so, it aims to follow best practices adopted in the UK as a measure of value and performance to the States and the public.
- Museum Accreditation forms part of the performance indicators against which cultural organisations are measured, and the Visitor Attraction Quality Assurance Scheme and Investors in People are both considered part of the overall accreditation assessment.
- The relevant standards, any compliance issues arising from Jersey Heritage's most recent assessment and the date of the last review are summarised in the table below.

| Agency and standard title  | Description of standard   | Example participants   | Compliance issues  | Last review    |
|--|---|--|--|----------------|
| Museums Libraries and Archives Council<br><i>Museums Accreditation</i> | <ul style="list-style-type: none"> <li>▪ Governance and management</li> <li>▪ User services</li> <li>▪ Visitor services</li> <li>▪ Collections management</li> </ul>  | <ul style="list-style-type: none"> <li>▪ British Museum</li> <li>▪ Bristol Museums</li> <li>▪ Leeds City Museum</li> <li>▪ V&amp;A Museum</li> </ul>             | All six sites accredited.<br>Provisional only for Maritime Museum owing to lack of proper lease.   | September 2009 |
| The National Archives<br><i>Standard for Record Repositories</i>       | <ul style="list-style-type: none"> <li>▪ Constitution and finance</li> <li>▪ Staff</li> <li>▪ Acquisition</li> <li>▪ Access</li> <li>▪ Storage and preservation</li> </ul>  | <ul style="list-style-type: none"> <li>▪ London Archive</li> <li>▪ British Library</li> <li>▪ Bodleian Library</li> <li>▪ Dorset Record Office</li> </ul>        | Not technically part of standard as outside UK so benchmark only, problems highlighted are:<br>- Limited public access<br>- Repository environment | September 2008 |
| Visit Britain<br><i>Visitor Attraction Quality Assurance Scheme</i>    | <p><i>“The assessment covers the whole visitor journey from telephone enquiries to toilets. All areas that impact on the quality of the visitor experience are included in the assessment, ranging from the initial enquiry through to the departure”.</i></p>  | <ul style="list-style-type: none"> <li>▪ Historic Royal Palaces</li> <li>▪ Imperial War Museums</li> <li>▪ National Trust</li> <li>▪ English Heritage</li> </ul> | All six sites fully accredited.<br>Maintenance of viable catering offer an issue at Mont Orgueil, Elizabeth Castle and Hamptonne.                  | July 2009      |
| Investors in People  | <ul style="list-style-type: none"> <li>▪ Business strategy</li> <li>▪ Learning and development</li> <li>▪ People management</li> <li>▪ Leadership</li> <li>▪ Management effectiveness</li> <li>▪ Recognition and reward</li> <li>▪ Involvement and empowerment</li> <li>▪ Performance management</li> </ul> | <ul style="list-style-type: none"> <li>▪ Widely used (private and public sectors)</li> </ul>   | Organisation accredited.<br>Key development areas proposed as organisation-wide competency framework; streamlining teams structure.                | November 2008  |

Source: Jersey Heritage Trust summary of accreditation

| Observation   | Issue  | Recommendation  |
|---|--|---|
| <p><b>The proposition approved by the States for the “Development of a Cultural Strategy for the Island” on 20 September 2005 recognised a number of the key issues that remain live issues as at the time of producing this Report. In particular:</b></p> <p><i>1. A declining level of visitors to the Island has reduced the potential for the generation of income that can be raised from sources other than the Government; and</i></p> <p><i>2. Service cuts must be accepted if the level of funding provided by the States cannot be increased, which may result in the loss of services which are the most preferred for preservation and enhancement.</i></p> | <ul style="list-style-type: none"> <li>■ Many of the Trust’s activities have been transferred to it by the States and/or other heritage organisations.</li> <li>■ The Trust’s activities have continued to develop in the period since the Cultural Strategy was approved in September 2005, with the re-opening of Mont Orgueil, the development of the Forts and Towers project and acquisition of the Castle Ferry service being particularly noteworthy.</li> <li>■ At the same time, the number of visitors to the Island has declined (that is, the number of visitors has declined since the Trust’s original establishment) and there has been an ever increasing reliance placed on the annual ESC grant, as well as some supplemental grants.</li> <li>■ The fact that Jersey Heritage is the operator rather than owner of the sites means that should Jersey Heritage decide to close certain services, these responsibilities will likely fall elsewhere within the States and/or within other heritage organisations.</li> </ul> | <ul style="list-style-type: none"> <li>■ No long-term strategy has been developed previously, and this is now critical and will determine the scope of the transformation of Jersey Heritage and its activities.</li> <li>■ The activities of Jersey Heritage need to be fully defined with due consideration to, <i>inter alia</i>, the requirements of the States as to specific service requirements. The cost of providing those services can then be properly determined and will drive, amongst other things, the level of resources and thus grant required.</li> <li>■ The alternative scenario, being to stop providing certain services and/or close certain sites as immediate actions and outside of a longer-term strategy, is potentially a short-term measure although may be required as part of a larger and longer term programme of adjustments to Jersey Heritage’s activities. The financial considerations associated with that type of approach (e.g. in terms of selecting the activities to close) may not be fully aligned with the over-riding priorities of the States or other key stakeholders.</li> <li>■ Sufficient thought must be given by all stakeholder groups to the implications of a decision by Jersey Heritage to close certain sites, and where the subsequent site management responsibilities (and thus costs) will fall.</li> <li>■ The chosen strategy must be sustainable, so as not to leave Jersey Heritage “<i>hanging-on by the fingertips</i>” with a similar problem more than likely to emerge again in the future.</li> </ul> |
| <p><b>Financial and non-financial reporting needs to be enhanced to aid review and transparency, particularly to support future grant arrangements and to aid Trustee decision making processes.</b></p>  | <ul style="list-style-type: none"> <li>■ Financial information does not currently enable a proper understanding of, for example, the results of individual sites and activities.</li> <li>■ Non-financial information is comprehensive but as a result meaningful review is difficult.</li> </ul>  | <ul style="list-style-type: none"> <li>■ A timely (i.e. monthly or quarterly) management reporting framework needs to be developed, to provide greater and more meaningful information to both ESC and the Trustees. This reporting framework should provide analysis of the financial result derived from each site, attraction or activity.</li> </ul>  |

| Observation   | Issue   | Recommendation  |
|---|---|---|
| <p>The Trust seeks to achieve accreditation under UK National Standards (issued by various bodies) in order to ensure that best practice standards of performance are achieved and to enable benchmarking of its activities. This acts as a form of “internal audit” to provide assurance to both the States and the public that Jersey Heritage is providing the service it should be.</p> | <ul style="list-style-type: none"> <li>As the table on page 27 shows, not all sites are fully accredited, for specific reasons, although on the whole the Trust appears to perform well.</li> </ul> | <ul style="list-style-type: none"> <li>Compliance with nationally recognised accreditation standards should provide ESC and the States with some comfort about quality and performance of the Trust’s activities, as well as providing comparison with other similar organisations. We recommend that this information is included as a matrix within the future non-financial reporting to be agreed between ESC and the Trust.</li> </ul> |

## 4 Legal structure & governance

### Legal structure

- Constituted by the “Loi accordant un Acte d’Incorporation a la’ Association dite ‘The Jersey Heritage Trust’”.<sup>4</sup>
- The Trust currently has one dormant wholly owned subsidiary, Jersey Museum Trading Company Limited, which holds the liquor licence for the Jersey Museum. This company undertakes no other activity and holds no other assets<sup>5</sup>.
- All activities of Jersey Heritage are therefore conducted within the Trust itself.

### Constitution

#### Objectives

- The objects of Jersey Heritage are enshrined in its Constitution:

*“Jersey’s heritage is special. The purpose of the Jersey Heritage Trust is to care for it, promote wide access to it, act as advocates on its behalf, and bring imagination to telling its stories so as to inspire people to create a better Island for everyone.*

*In order to accomplish this, the Jersey Heritage Trust shall, in addition to any other method that may seem appropriate to it from time to time:*

- a. *collect, document and preserve unique collections of artefacts, works of art, archival material, specimens and information relating to the history, culture and environment of the Bailiwick of Jersey. These collections define the Island, hold*

*the evidence for its historical development and act as the community’s memory;*

- b. *make these collections widely accessible and promote learning through museums, galleries, the archives centre, exhibitions and events in a range of venues, publications and the Internet;*
- c. *acquire, maintain, open and develop significant historic sites, museums and galleries, including Mont Orgueil, Elizabeth Castle, Hamptonne, La Hougue Bie, the Jersey Museum, No. 9 Pier Road, the Jersey Archives Centre and the Sir Francis Cook Gallery;*
- d. *provide comprehensive information, education and outreach services to a wide audience;*
- e. *provide outstanding, memorable and inspirational experiences for the visiting public;*
- f. *work with other organisations in and outside the Island, and in particular the Société Jersiaise, to deliver these aims;*
- g. *promote an inclusive sense of belonging and pride in the Island, advance the cause of its heritage and support its cultural identity.”*

#### Other key features

- A quorum is formed by a majority of Trustees and each member has one vote. In the event of equality in the votes the Chairman shall have the casting vote in addition to his own vote.
- Jersey Heritage may adopt, alter, amend or vary rules to regulate its own proceedings subject to the Constitution. The formalisation of a scheme of delegations and code of best practice demonstrates where this provision has been used.

<sup>4</sup> Registered in the Royal Court of Jersey on 3 June 1983

<sup>5</sup> Jersey Heritage accounts, 2008

- Jersey Heritage may appoint staff with such remuneration, benefits (including pensions) and terms and conditions as it sees fit.
- In view of the grant advanced by the States, the Trust is obliged to share a business plan with ESC each year.

### Governance

- As previously reported, Jersey Heritage is governed and managed independently of the States, although ESC is a significant source of funding to the Trust on an annual basis.
- The Board of Trustees is appointed in accordance with the Constitution of the Trust. The Board shall comprise up to 12 Trustees as follows:
  - A Chairman nominated by the Education, Sport and Culture Committee<sup>6</sup>;
  - The president of the Societe Jersiaise;
  - A member of the States of Jersey;
  - The Minister or an Assistant Minister representing ESC;
  - A Trustee recommended by the Societe Jersiaise and appointed by Jersey Heritage; and
  - No fewer than 3 and no more than 7 other Trustees appointed by Jersey Heritage on the basis of skills, experience and influence.

- Trustees appointed by Jersey Heritage should comprise a diverse balance of individuals in terms of gender, age, experience, skills, track record and attitude and all must share a commitment to Jersey's heritage. We note that the Board is not diverse in terms of gender and recommend that the next Trustee recruitment process address this issue if possible.
- Trustees in the last two categories are permitted to hold office for a maximum of two terms of three years each, with a break of one year applicable for any Trustee seeking further reappointment.

### Appointment and induction of trustees

- The recruitment process for Trustees is managed by the Chairman and the head of human resources.
- Although there are two Trustees due for compulsory retirement in February 2010 (Geoffrey Crill and Philip Le Brocq), it was decided in 2009 to defer any recruitment process as a result of the Trust's current financial circumstances and pending publication of the Report of the Comptroller and Auditor General, which is now in the public domain.
- With the forthcoming recruitment and appointment process, which was launched in mid-January 2010 through an advertisement in the Jersey Evening Post, it will be important to ensure that the Trustee induction programme is comprehensive and fully up to date and, in particular, provides the newly recruited Trustees with adequately detailed and complete financial information.
- We have met with each Trustee on an individual basis as part of this Review, and relevant matters arising from these meetings have been incorporated in this Report.

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<sup>6</sup> This Committee is no longer in existence and its role in relation to Jersey Heritage has been taken on by the Minister for Education, Sport and Culture and his department. The appointment of each Chairman is approved by the States

## Delegation of authority to management

### *Scheme of Delegations*

- Jersey Heritage has adopted a scheme of delegations from the Board of Trustees to the staff.
- It explains the issues and circumstances that should be reported to the Board and formalises the levels of authority for operational management, a team led by the Director.
- The scheme of delegations defines the Board of Trustees as the governing body of the Trust, providing strategic policy and advice to the staff. It also provides clarification that committee and panel expertise should be focussed on key issues rather than routine or non-contentious matters.
- Matters reserved to the Board of Trustees include:
  - Significant new policy and strategy, particularly of a corporate nature or with significant financial implications.
  - Annual budget and accounts.
  - Matters requiring ESC or States approval.
  - Matters that may be politically or publicly sensitive or controversial.
  - Acquisition or disposal of freehold or leasehold interests or undertaking of management agreements in respect of land and buildings.

### *Code of Best Practice*

- In accordance with guidelines issued by the UK Cabinet Office on best practice for board members of public bodies, Jersey Heritage has established a Code of Best Practice guiding the Trustees.

## Other boards, committees and advisory panels

### *Remuneration Panel*

- The Remuneration Panel is a sub-committee which meets at least once a year to review the remuneration setting and review process and approve any changes including the annual cost of living award and any increments.
- We understand that the Panel has recently met and discussed the cost of living award for 2010, which for the first time is referring to a Jersey retail price index that is negative, at -0.6%. As there is no precedent for this, the Trust has sought external advice and has concluded that a pay freeze will be appropriate. This decision is to be implemented in January 2010 which, in effect, represents a 0.6% pay increase for staff. The estimated annual cost of this is circa £8,000.
- As explained in greater detail in Section 12, individual member of staff are also entitled to salary increments in the event that certain qualifying criteria are met. As well as some basic performance and attendance standards, this includes the requirement that the “Trust can afford it”.



- As a result of the current financial difficulties facing the Trust, we understand that the decision to award increments as at 1 January 2010 has been considered carefully. Lengthy discussions, together with external advice have resulted in a decision by the Remuneration Panel to award pay increments in January 2010 at a total annualised cost of c.£30,000.

#### *Commissions and Collections Group*

- The Group was established to monitor and review the Trust's collecting activities.
- Routine acquisitions and disposals are the remit of management and staff in accordance with policies and procedures, however sensitive or contentious issues are to be referred to this sub-Group of the Board of Trustees.

#### *Records Advisory Panel*

- The Records Advisory Panel was established in accordance with the Public Records (Jersey) Law 2002, as a supervisory body to review and direct the States, together with the work of the archivist and Jersey's Archive in relation to the implementation of, and compliance with, the Law.
- The Panel comprises five persons, independent of the Trust and the Archive operation, who are selected via a comprehensive recruitment process and are formally appointed under the Law by the Minister for Education, Sport and Culture.
- Jersey Heritage runs the recruitment and selection process for new members and this process has recently been completed, resulting in a new Records Advisory Panel forming during Q4 2009.

#### *Ministerial Registration and Listing Advisory Group*

- A service level agreement is in place between the Department for Planning and the Environment and Jersey Heritage in respect of its services related to historic buildings. As a part of this service, the Ministerial Registration and Listing Advisory Group was formed to provide advice to the Planning Minister.

#### *Conservation Advisory Group*

- The Conservation Advisory Group was established to advise on the adoption of appropriate conservation policies for sites in the care of Jersey Heritage.
- A number of Jersey's other cultural heritage organisations are represented on the Group, including the Societe Jersiaise, the National Trust for Jersey, the Channel Island Occupation Society and the Department for Planning and the Environment.
- The scope of our work did not include reviewing the effectiveness of this Group (or indeed any of the other groups) however on the assumption that the Group meets regularly and operates effectively this is a good example of the Trust working effectively with other similar organisations for the good of the Island.
- We make some observations about the interaction between the Trust and the Societe Jersiaise elsewhere in this Report.

**Observations arising from our individual discussions with the Trustees**

- We have met each Trustee as part of this review.
- Whilst it is not appropriate to report the detail of these discussions, it is considered helpful to discuss key themes arising from those discussions relevant to existing governance arrangements within the Trust.
- As an opening comment, we found that the individual Trustees viewed Jersey Heritage as a lively, innovative, entrepreneurial and motivated organisation – however, that it was important to deliver a clear strategy as a priority, to preserve this motivation for both the employed staff and volunteers.
- The recurring key themes arising from the various meetings have been discussed below.

***Meetings and communications***

- The 4/5 formal meetings per year are supplemented by informal monthly breakfast meetings. In addition, the relevant sub-committee meetings tend to occur approximately quarterly.
- Trustees have other informal meetings and discussions with the Executive Directors as necessary, and are used by the Executive as a sounding board on occasion, given each Trustee has specific experience for the Executive to draw upon.
- The number and duration of meetings appears to be considered appropriate by the Trustees, given they are honorary appointees and therefore it is important that the role does not become overly time consuming.

- There appears to be a need to ensure that the Trustee meetings do not clash with States sittings, given the presence of at least one States Member on the Board at any particular time.
- There appear to be some differing views regarding the nature of decisions required to be made at Trustee level, and pricing of entry to attractions was one example quoted (which, we now understand, was required to be approved in isolation for the 2010 season as a result of the delay to formal Trustee approval of the Trust's budget for 2010, pending further progress with ESC on the shape and nature of the Trust's activities going forward). It is clear though that the Trustees consider themselves non-executive and the day-to-day executive decision making is entrusted to the Executive directors.

***Financial situation***

- The Trustees are well aware of the financial predicament that the Trust currently finds itself in, and there is a general feeling that the Trust should not have come so close to being insolvent.
- It is deemed imperative that the Trust be brought back onto an 'even footing' as quickly as possible, and that the financial results and forecasts are increasingly transparent going forward.
- There is clearly some concern that the existing interaction between the Trust, ESC and the States has not helped the situation, in that there has been a lack of clear strategy and as a result the operations of the Trust have continued substantially unchanged despite there being a forecast deficit on an annual basis. However, this has now been brought to a head, and the current reviews (including this review) should facilitate the development of an agreed strategy for the future. This is seen as a helpful and a positive step forward.
- The current level of grant is not deemed to be sufficient to enable the Trust to maintain all of its current roles, and the level of grant

needs to be such that the Trust can properly support the Island's tourism offer, and satisfy its obligations to protect the Island's heritage assets, be that buildings or collections.

- A capital issue is developing, and separate capital grants will be necessary to refresh or refurbish sites and attractions to a 'realistic' standard i.e. to a fit-for-purpose standard.
- The ability to attract visitors (whether they are locals or tourists) is to a greater or lesser extent influenced by the Trust's ability to refresh the sites, and an example cited on numerous occasions is the museum displays at both of the Maritime and Pier Road museums, which are now aged and tired, and require some degree of updating and refreshment.
- It is also apparent that the existing funding arrangements do not cater properly for maintenance of sites, and there appears to be some confusion as to whether this is supposed to be included in the existing grant or not. The Trustees are aware that deferring repair and maintenance spend will accelerate the capital requirements, and ongoing spend on site repair, maintenance and refreshment may help to drive-up the attendance revenues.
- The Trustees are very aware of the difficulties in attracting or retaining corporate sponsorship in the current climate. There are additional revenue opportunities potentially, i.e. charging school children an admittance fee, but there are political and community implications and it again forces a clear understanding of the role and responsibilities of the Trust.

#### *Trust activities*

- The requirement for the Trust to develop a sustainable business model that results in no annual deficit or borrowing obligation will inevitably result in site and service closures / reductions (unless, of course, the level of grant funding is increased).

- There are, undoubtedly, some economies and savings that can be wrung-out of the existing cost base, however this is seen as 'tinkering' with the problem.
- Therefore, it is a case of prioritizing the services that are needed or should be provided, and are able to continue to be operated, based on revenues available to the Trust. At the same time, the States will need to determine which, if any, sites it requires the Trust to maintain open, and to ensure sufficient funding is allocated to achieving that.
- However, a general feeling amongst the Trustees is that the Trust should not be contracting in terms of its scope and activities; rather it has a responsibility to do more, for example a re-vamp of Elizabeth Castle. This creates a further capital requirement. The Trustees have commented to us that the activities of Jersey Heritage have evolved, and that this in part has been necessary to satisfy the changing needs of the market (both the resident market and visiting tourists). Generally, it is acknowledged that the Trust is managing a challenging portfolio of assets, given their unique nature.
- There is an awareness that the Trust also supports, indirectly, the work of a number of community organisations. For example, the Maritime Museum provides a base for the Friends of the Maritime Museum; the Jersey Archive provides a headquarters for the Family History Society; and the Museum site is also home to the Societe Jersiaise (the interaction of these two organisations is discussed elsewhere in this Report).
- The Jersey Archive is seen as slightly different to the other core activities of the Trust, in that this facility fulfils a legal requirement for the States under the Public Records (Jersey) Law 2002. We discuss this elsewhere, and the potential consideration that the funding for the Jersey Archive facility is dealt with differently in future (for example, the concept that more of the cost of this

facility could be borne centrally by the States). There is some concern that the Archive is stretched, with public access and backlog issues arising as a result. There will also be a capacity issue in the future, when the existing archive space becomes full (we understand that this issue could arise in around 7 years time) and it seems likely that capital expenditure will be required to expand the archive storage space at that point in time.

- The relationship with the Societe Jersiaise was discussed with each Trustee. It seems that the two organisations are often “*stepping on each others toes*” and that greater clarity as to the roles, responsibilities and differences of each organisation is required – and, we understand, is being developed. It appears that there is a desire for the Societe Jersiaise to continue its important role as a scholastic, research-focused organisation and for the Trust to continue to have a guardianship role on the Societe’s key assets and collections, which was, we understand, the original rationale behind the formation of Jersey Heritage.

***Elizabeth Castle – amphibious vehicle acquisition***

- The Board of Trustees clearly discussed this matter at length at the time of deciding to acquire the service from the operator. The feeling is that the operator was, at the time of reviewing tenders for the operation of the castle ferry service, the best option. The Trustees consider that the Trust supported the operator for as long as possible, and was eventually ‘forced’ to acquire the operation to safeguard public access to Elizabeth Castle. We discuss this issue elsewhere in the Report.

***Management reporting***

- The current difficulties facing the Trust have highlighted the need to revisit the form and content of financial information being provided to and reviewed by the Trustees. Financial information needs to include actual and budgeted results, review of variances

and certain KPI’s. There is a general feeling that the development of a Finance and/or Audit Sub-Committee is important (with a forward looking emphasis), as is the appointment of an Honorary Financial Adviser, which has now been completed following the recent appointment of Mr Kevin Keen in that role.

**Current developments**

***Finance Committee***

- A formal finance and resources sub-committee has not operated in the past. The role of the Honorary Financial Adviser is important to the finance function, although no-one has been appointed to this role since the appointment of John De Veulle as a past Chairman of the Board of Trustees. Very recently, Kevin Keen, Chairman of Jersey Water, has been recruited to fulfil this role and has started to work with the Chairman and the Executive Directors.
- In our individual discussions with Trustees, a recurring theme was that the financial affairs of the Trust could be better reviewed and controlled if a committee or sub-group was formed, with the intention of devoting increased time to the detailed analysis of financial matters (which have in recent years been discussed at breakfast briefings and board meetings, both of which are limited in time).
- We wholly endorse the formation of a Finance Committee as soon as possible, which we believe will foster an increased level of communication and engagement between the Trustees and the Directors, particularly the Finance Director, in these challenging economic times and forthcoming period of significant change.
- The appointment of an Honorary Financial Adviser to the Finance Committee will add significant value to the credibility of the group and bring a new point of view to the table.

### ***Audit Committee***

- The formation of an Audit Committee was agreed in principle prior to terms of reference being agreed, by the Board of Trustees on 10 July 2009.
- The purpose of the Committee is to advise on the adequacy of internal control arrangements and risk management processes.
- It was intended in the terms of reference that the Committee would comprise 3 members, each to be Trustees nominated by the Board, with the role of Chair also being nominated.
- It is our understanding that the Audit Committee is not yet fully up and running, for various reasons, particularly the focus on dealing with the various reviews undertaken by the Comptroller and Auditor General, Locum and ourselves.
- We are of the view that the responsibilities of an Audit Committee could be covered by the Finance Committee, so would recommend that the Board of Trustees consider merging the two and developing a comprehensive terms of reference which captures all important financial matters.

## Other governing documents

### Partnership Agreement with ESC

- The purpose of entering into an Agreement with ESC is to give clarity on the expectations of both parties within the relationship. For ESC, to ensure adequate provisions are in place to control the utilisation of, what is a significant grant of public monies. For Jersey Heritage, to set out the major contribution that it makes to the heritage and cultural sector in Jersey and what it is expected to deliver.
- The Agreement is also intended to ensure compliance, from ESC’s perspective, with the States Financial Direction 5.4, “Obtaining value for money from grants”. We have not considered the detail of this financial direction as part of the review; however, some of the recommendations we make in respect of the overall reporting framework may address some of the objectives of this Direction.
- The main underlying premise of the Agreement is that Jersey Heritage is recognised in the Cultural Strategy for the Island (which ESC is responsible for delivering) as a major cultural organisation, which requires support from ESC to fulfil its role. To formally endorse this mutual objective, ESC ensured that the Trust was given a seat at the Council for Culture Core Group (“Core Culture Group”), which has been set up to advise ESC on cultural matters. In return, and at the highest level, Jersey Heritage is required to deliver an annual business plan which explains how its activities support specific aims and objectives of the cultural strategy or other detailed plans agreed by the Core Culture Group.
- The Partnership Agreement also acknowledges the contribution of Jersey Heritage to the aims and objectives of other States departments which are set out, together with its work with ESC, in the table opposite.

### Jersey Heritage – interaction with States’ departments

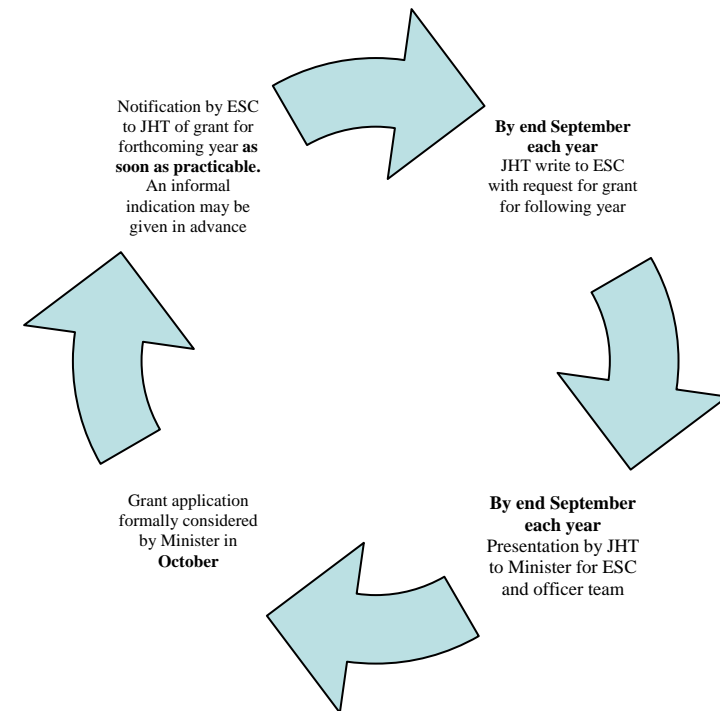
| Department                               | Nature of relationship   |
|--|--|
| ESC                                      | Partnership in relation to the delivery of cultural objectives and plans from the Island’s cultural strategy   |
| Economic Development                     | JHT hold events contributing to tourism programmes and has benefited from capital funding programmes to enhance and extend its activities, as well as complete restoration or new build projects on sites of heritage or cultural interest |
| Planning and Environment                 | Management of historic buildings register and provision of historic buildings advice under a service level agreement<br><br>Provision of archaeological services under separate service level agreement                                    |
| Property Holdings                        | Management of forts and towers, which form ‘Heritage Lets’<br><br>Operation of Fort Regent Signal Station, a service previously provided by ESC as operator of Fort Regent leisure centre  |
| Home Affairs                             | Referrals in relation to the Customs and Excise (Import and Export Control) (Jersey) Order 2006 under agreement with Customs and Immigration   |
| Chief Ministers / all States Departments | Jersey Archive – providing advice under the Public Records (Jersey) Law 2002, together with cataloguing and storing, in appropriate conditions, any records required to be retained by States departments                                  |

*Source: Discussions with the Director, various documents provided by JHT and BDO analysis*

- The activities of Jersey Heritage in support of States objectives are thus quite extensive; although all are consistent with the objects of the Trust.

- The agreed objectives are set out in the Partnership Agreement, and these expand on the four guiding principles of guardianship, discovery, community and sustainability as follows:
  - Guardianship of collections
  - Guardianship of sites
  - Access, research and knowledge
  - Learning
  - Advocacy, partnerships and community
  - Innovation, creativity and peer review
  - Governance and people
  - Financial and strategic planning
  
- We believe that redefining the Partnership Agreement will clearly be necessary following any strategic decisions to be taken jointly between ESC and Jersey Heritage, whether after a States debate and vote, regarding the shape of the Trust going forward.
  
- Whilst the objectives in the existing Agreement are not necessarily listed in order of importance, the priorities may need to be clearly identified in any new agreement to ensure that the financial expectations and deliverables are given due prominence. We would expect such financial measurables, objectives and reporting expectations to go further than simply require Jersey Heritage to “*use the grant received from ESC for purposes consistent with the business plan*”, as stated in the current Agreement.

- Of course, a careful balance must be achieved in any revision of the Agreement to ensure robust oversight in accordance with States’ Financial Directions of a non-government organisation that remains independent.
  
- Other key terms are the agreement of KPIs, maintenance of regular management accounts, ensure the Trust is a responsible employer, allow access to States internal auditors, including the Comptroller and Auditor General and the Chief Internal Auditor and inform ESC of any intention to sell any assets purchased with the grant.
  
- The grant application process is set out in detail in the Partnership Agreement and the diagram below sets out the key stages of the process.



### **Observations on compliance with the Partnership Agreement**

- On reviewing the existing Partnership Agreement, a number of initial observations can be made as follows:
  - The reporting agreed between the parties has been limited to the quarterly performance and activity report and the annual audited financial statements. This information does not appear to have supported an effective understanding of the Trust by ESC and has limited the development of an effective system of communication. Agreement of a new set of key performance indicators and management account format, both to be shared with ESC regularly, will enable both parties to enhance the relationship.
  - The Finance Director of Jersey Heritage has prepared management accounts. However, these are not shared with either the Board of Trustees or with ESC and there is currently no formal timetable or reporting cycle followed. The accounting policies adopted therein do not enable a straightforward assessment of the performance of the Trust and there is no comparison to a time-phased budget.
  - The grant application process and timeframe has also not been wholly complied with during Q3 2009, however this is as a result of the ongoing discussion between ESC and Jersey Heritage, together with the reviews which are being undertaken and which, it is intended, will help to facilitate joint decision making early in 2010.

### **Interaction with ESC**

- During our review we have observed a genuine desire in both ESC and Jersey Heritage to further develop the relationship for their mutual benefit.
- A key issue appears to be that the Department has not received information, particularly financial, that has enabled the Minister and his Officers to develop a sufficiently detailed understanding of, *inter alia*:
  - a. The range of activities that Jersey Heritage is involved in, and on whose behalf it is providing those services; and
  - b. The income and expenses associated with each activity, site or business unit.
- We consider that this Report, and the increasingly interactive and close working relationship that is being forged between Jersey Heritage and ESC, should substantially address this problem and provide ESC with the information it requires to formulate a timely solution.
- To support and build on the relationship going forward, we make the following observations and recommendations in respect of the reporting process and cycle from Jersey Heritage to ESC:



| Observation  | Issue  | Recommendation   |
|--|--|--|
| <p>The grant is provided to assist Jersey Heritage achieve its objectives in terms of its overall operations. The grant is not allocated to specific services or sites that ESC has identified as being priorities and to which the monies should be directed. JHT does not receive a detailed calculation of the grant.</p>                       | <ul style="list-style-type: none"> <li>The Department has limited detailed knowledge about what its annual grant is helping to support and this makes it difficult to prioritise in times of scarce financial resource.</li> </ul>   | <ul style="list-style-type: none"> <li>The information contained in this Report, which presents the financial information in an alternative format, should be used to assist the discussions between Jersey Heritage and ESC about the services and attractions that ESC / the States believe should be priorities in the context of the Island's cultural strategy and objectives.</li> <li>This will form the basis of the future business strategy for the Trust.</li> </ul>  |
| <p>Reporting to ESC is in the form of audited accounts, which by their very nature are outdated by the time they are signed off, together with a quarterly activity and performance report which contains too many performance indicators that cannot be well interpreted by those not involved in the day to day running of the organisation.</p> | <ul style="list-style-type: none"> <li>Financial information is not timely enough to provide good quality information about the Trust's performance in terms of the spending of the grant, nor do they provide an adequate warning of approaching problems.</li> <li>Non-financial information is too extensive and not easily understandable.</li> </ul>  | <ul style="list-style-type: none"> <li>Provide monthly management accounts, which include comparison to budget and prior year with variance analysis, together with a re-forecast if appropriate, to ESC on a timely basis following the month end.</li> <li>Agree clear Key Performance Indicators ("KPIs") with ESC and report on these regularly. Revisit these KPIs on a regular basis to ensure that they remain appropriate.</li> <li>During the forthcoming period of transition or restructure some specific measures may be necessary in order to ensure that the project is meeting agreed objectives on a timely basis, particularly given that any delays may result in additional one-off transition or closure costs.</li> </ul> |
| <p>There is a mechanism for a formal meeting between ESC and Jersey Heritage once a year, at which Jersey Heritage will typically present its business plan for the following year.</p>  | <ul style="list-style-type: none"> <li>At the present time, meeting once a year appears to be insufficient to allow formal discussion of the significant issues being faced by the Trust.</li> <li>Whilst there appear to be good lines of informal communications between ESC Officers and the Directors of the Trust, a mechanism for the Board of Trustees to see the Minister and Chief Officer on a more frequent basis is likely to be beneficial to both parties, enabling ESC to better demonstrate compliance with Financial Direction 5.4, and the Trust to provide an early warning of any impending issues.</li> </ul> | <ul style="list-style-type: none"> <li>Meetings should be scheduled on a more frequent basis (perhaps quarterly) and include an agreed standing agenda. This forum would also facilitate discussion of the latest management accounts, progress of the restructuring, key trends in the business that may affect the business model going forward, and any other relevant matters.</li> </ul>  |

| Observation   | Issue   | Recommendation  |
|---|---|---|
| <p><b>The grant application process is such that Jersey Heritage has not been aware of the level of committed resource from ESC more than 2 or 3 months (at most) prior to the beginning of the financial period to which that grant relates.</b></p> | <ul style="list-style-type: none"> <li>■ This approval process is not significantly in advance of the financial year in which the Trust begins incurring spend and making other financial commitments, particularly given the high proportion of fixed costs within the organisation.</li> <li>■ This timing would not enable any adjustment in the level of activities of the Trust quickly enough to re-balance the operations in the event of a reduced level of available grant.</li> </ul> | <ul style="list-style-type: none"> <li>■ We acknowledge the interaction of this recommendation with the business planning and budgeting process within the States as a whole, and recognise that ESC may have limited power to advance the formal grant approval process until there are fundamental changes in business planning overall.</li> <li>■ At such time as a change becomes possible we would recommend that the grant application and approval process be operated on a rolling basis capturing more than one financial year, for example a rolling three year cycle, to aid planning on the part of both ESC and Jersey Heritage.</li> </ul> |

### **Site management agreements and joint arrangements**

- The Trust operates a number of sites on behalf of others and the site summaries in Section 9 explain these in further detail.
- Neither Grosnez Castle nor Le Hocq Tower form part of the “trading” activities of the Trust and during our review we did not identify any expenditure in relation to these sites, which we include in the table opposite for completeness.
- This list records the number and nature of the assets that Jersey Heritage has been tasked with the guardianship of. This collection of properties represents a significant maintenance and restoration obligation on an ongoing basis. Whilst Elizabeth Castle, Mont Orgueil and the Forts and Towers are sites which generate income and have an established arrangement to set aside part of the associated revenue to contribute towards the maintenance costs, the amounts accumulated in those funds are unlikely to be sufficient to address the needs of a major restoration project or refurbishment as will inevitably be necessary at some point in the future.
- All the major historic sites (the castles and forts and towers) under the Trust’s care also represent a growing financial obligation on the States, if they are to remain accessible to the public as visitor attractions and valued assets which represent Jersey and its history.
- Other properties may also require major injections of cash for refurbishment programmes in due course. For example, the Archive building is now around 10 years old and its specification is high, utilising extensive technology that will be expensive to replace. Similar issues exist at the museums.
- There are currently no arrangements to plan for these future events, and Jersey Heritage is not in a position to take on a fully repairing and maintaining lease at the archive under current financial circumstances.

### **Jersey Heritage – Summary of site management**

| <b>Site</b>                                   | <b>Agreement</b>  |
|---|---|
| Mont Orgueil Castle                           | Deed of Gift of usufruct from the States  |
| Elizabeth Castle                              | Deed of Gift of usufruct from the States  |
| Jersey Museum                                 | Owned by Jersey Heritage, under Deed of Gift from the States  |
| No.9 Pier Road                                | Deed of Gift of usufruct from Societe Jersiaise   |
| Maritime Museum & Occupation Tapestry Gallery | No lease agreement currently in place. Jersey Harbours maintaining the building   |
| La Hougue Bie                                 | Management agreement with Societe Jersiaise (owners of this site)   |
| Hamptonne                                     | Management agreement with Societe Jersiaise. Site is owned by the National Trust for Jersey   |
| Jersey Archive                                | No lease agreement currently in place. Jersey Heritage maintaining the building and Property Holdings maintaining the supported rock face behind the building                     |
| Sir Francis Cook Gallery                      | Deed of Gift from Lady Cook   |
| Fort Regent Signal Station                    | Management agreement only with Jersey Property Holdings   |
| Grosnez Castle                                | Management agreement with Rozel Estates   |
| Forts & Towers                                | 10 sites under management agreements with the States. Comprising self catering holiday accommodation and stone tents<br><br>3 sites pending management agreements with the States |
| Le Hocq Tower                                 | 25 year lease from Parish of St Clement   |

*Source: Discussions with the Director, various documents provided by JHT and BDO analysis*

## Reporting and management information

### *Finance manual*

- Jersey Heritage's finance manual is not set out as a rule book but rather a best practice document that is considered suitable for an organisation of its size and nature that can be deviated from where appropriate.
- The procedures set out therein appear reasonable and give coverage of the relevant areas. The scope of our work did not include the review and testing of specific procedures and controls set out in the manual so we are unable to verify whether these are operating effectively in practice.

## Interaction between JHT and other heritage organisations

- Whilst Jersey Heritage acts as guardian and operator of various heritage sites and attractions as previously identified, it is not the only local organisation which is seeking to preserve, protect and provide access to local Heritage.

### *The Société Jersiaise*

- The Société Jersiaise, which has the closest ties to Jersey Heritage, was founded in 1873 to promote and encourage<sup>7</sup>:
  - The study of the history, the archaeology, the natural history, the language and many other subjects of interest in the Island of Jersey;
  - The works of the Jersey Heritage Trust and the Jersey Museums Service, and the provision of information and voluntary helpers;
  - The conservation of the Island's natural environment;
  - The preservation of Jersey's historical buildings and monuments;
  - The publication of books and articles on topics of local interest;
  - Exhibitions and displays of work;
  - The collection of artefacts, books, paintings, photographs and maps of the Island; and

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<sup>7</sup> Source, Societe Jersiaise website

- Through the Barreau Art Scholarship, the encouragement of contemporary art by young Islanders.
- The Societe operates closely with the Trust, and specifically:
  - The President of the Societe at any given time sits on the Board of Trustees of the Trust;
  - The Trust manages the property at No.9 Pier Road, under a usufruct arrangement with the Societe;
  - The Trust manages La Hougue Bie on behalf of the Societe, as owner of that site;
  - The Trust manages Hamptonne on behalf of the National Trust and the Societe, the latter having provided funding for the redevelopment of that site; and
  - The Trust manages various artefacts and collections on behalf of the Societe.

- The Societe Jersiaise is also suffering a funding dilemma currently, and has recently launched a request for Legacies and Bequests, as announced on its website:

*“The Société Jersiaise is launching an appeal to raise funds to secure its future. Since its foundation in 1873 this well loved organisation has been active in the study and preservation of the island’s history, traditions and environment.*

*In the past the Société has been fortunate to receive donations in the form of legacies and bequests which have supplemented the income from member’s subscriptions and enabled it to continue its valuable work. Now under considerable financial pressure the organisation is appealing to those with a love of the island’s*

*heritage and who are concerned about the environment to consider leaving a bequest or a legacy to the Société.”*

- Based on conversations during this Review, it appears that there is a degree of tension between the Societe and Jersey Heritage, notwithstanding the presence of the President of the Societe on the Board of Trustees of Jersey Heritage. This ‘tension’ is within certain aspects of the Societe membership base, and appears to [fundamentally] arise as a result of funding pressures, specific examples being:
  - A degree of ill feeling toward the launch and promotion of Jersey Heritage’s ‘membership’ scheme, which is seen as competing with the Societe’s membership scheme, and which is a key source of income to the Societe; and
  - Lack of promotion of the fact that the Societe owns certain sites and collections that are promoted by Jersey Heritage, such that the general public is unclear as to the role of the Societe in the ownership and management of the Island’s heritage.
- The accounts of the Societe for the year ended 31 December 2008 show a deficit of £83,000 for the year, whilst the comparative 2007 year records a surplus of £112,000, after receipt of gifts and legacies in that year totalling £199,000.
- At 31 December 2008, the Societe had net current assets totalling £90,000 only, equivalent to approximately four months operating costs (based on 2008 accounts).
- We are aware that the Societe generally forecasts to operate at a deficit, and that historically it has been gifts and legacies that have supplemented its income sufficient to maintain a positive balance on their General Fund. However, the occurrence of gifts and legacies has declined and the Societe will itself be forced to look

to balance its own books through the continual management of its cost base coupled with a review of membership subscription rates.

- The Societe receives a ‘grant’ of circa £41,000 from the Trust each year, this grant representing 17% of its total income in 2008.

### **The National Trust for Jersey**

- The National Trust for Jersey is another heritage organisation with links to Jersey Heritage. It is the owner of Hamptonne. The National Trust describes its activities as follows<sup>8</sup>:

*“The National Trust for Jersey is an independent and charitable organisation dedicated to preserving and safeguarding sites of historic, aesthetic and natural interest for the benefit of the island.*

*Established in 1936 the Trust is now the island’s largest private land owner caring for over 130 sites.*

*Within that number are a variety of historic buildings including five farms, four cottages, two watermills and various historic military buildings. However, the majority of the Trust’s sites are areas of land, forming an integral part of the island’s natural environment and encompassing a rich variety of habitats such as woodland, farmland, heathland, meadows and wetland. The Trust employs 12 full time staff which include a number of rangers and highly skilled craftsmen to manage and maintain its sites in accordance with its conservation policies.*

*Being a local self-funding charity and totally independent of the States of Jersey, the National Trust for Jersey is heavily reliant on donations and bequests for the funding of its essential programme of repair works and regular maintenance. An important part of the Trust’s income is also derived from the rental of its properties*

*which unfortunately results in limited public access to many of its buildings. However, one can visit three historic buildings during the summer and except for sensitive conservation areas, all Trust lands are freely accessible providing a valuable opportunity for people to enjoy and appreciate Jersey’s countryside.”*

- The financial position of the National Trust for Jersey, and the importance of bequests and legacies to it, is also described on their website:

*“With restricted finances and an increasing amount of land and buildings to care for the Trust is very much reliant on the help and generosity of its members. Supporting the work of the Trust can take many forms but all are essential if the Trust is going to be able to continue safeguarding the island’s heritage.*

*Most importantly bequests and legacies form the lifeblood of the Trust and without such generosity the Trust would not be caring for over 1,000 verges of land and 16 historic buildings. If you are able to support the Trust in this manner you can be assured that your money or property will play an essential and key role in the future heritage of the island.”*

- It appears clear that the interaction of Jersey Heritage and the Societe needs to be considered as part of an overall plan to fund and manage the Island’s heritage, with a view also to releasing any actual or perceived ‘tension’ that might exist between these organisations. The relationship between Jersey Heritage and the National Trust should also be reviewed. This may include considering whether the organisations can work more closely together for mutual benefit, given each organisation has ongoing funding requirements and, for Jersey Heritage and the Societe, these are becoming acute.

<sup>8</sup> Source, National Trust for Jersey website

| Observation   | Risk   | Recommendation  | Priority   |
|---|--|---|--|
| <p><b>Audited financial statements no longer disclose a full balance sheet for each fund (being the Unrestricted, Heritage, Restricted and Designated funds), a practice that ceased with the accounts for the year ended 31 December 2006.</b></p>   | <ul style="list-style-type: none"> <li>■ As at 31 December 2008, this resulted in a lack of clarity about the true value of the overdraft, which was widely thought to be approximately £600,000 but was actually circa £940,000, allowing for re-instatement of the Heritage, Restricted and Designated funds.</li> <li>■ Assets and liabilities relating to each specific fund, and the restrictions upon their use, cannot be properly assessed as a result.</li> <li>■ It would appear that, therefore, restricted funds were used by the Trust to support ongoing operations, contrary to the obligations placed upon those funds.</li> </ul> | <ul style="list-style-type: none"> <li>■ Include a detailed balance sheet for each Fund in the notes to the financial statements, or as a minimum as a side document provided to the Trustees and ESC.</li> <li>■ See also point below regarding segregation of cash funds.</li> </ul>  | <ul style="list-style-type: none"> <li>■ Implement in financial statements for the year ended 31 December 2009.</li> </ul> |
| <p><b>Cash related to specific funds is not held in a separate bank account to ensure that it is spent only for the purpose for which it is intended. The transfers to, and existence of, these funds in recent months has been in accounting terms only. See further details in Section 8.</b></p> | <ul style="list-style-type: none"> <li>■ The Trust is likely to be in breach of the terms of agreements with third or bequests (such as the Sir Francis Cook Gallery).</li> <li>■ In the event of urgent reactive maintenance at one of the sites which forms part of a Heritage or Restricted fund, the Trust would not, at various times over the last 24 months, been able to fund the completion of the work without calling on its normal revenue funding. This would put further pressure on the finances of the Trust's day to day operations.</li> </ul>   | <ul style="list-style-type: none"> <li>■ A separate bank account should be maintained for each individual Designated, Restricted and Heritage fund. The cash held in those accounts should be used only for the purpose which is permitted by the relevant agreements with third parties (including terms of bequests) and Jersey Heritage procedures should be updated to document this.</li> <li>■ If it is not practicable to maintain an account for each fund then it may be appropriate to maintain a pooled account for which a full record is maintained, with reconciliations to be prepared on at least a monthly basis.</li> </ul> | <ul style="list-style-type: none"> <li>■ Immediate.</li> </ul>   |

| Observation  | Risk   | Recommendation  | Priority   |
|--|--|---|--|
| <p>The annual budget is prepared only in respect of the performance of Jersey Heritage on an annual basis, and does not include a monthly phasing to enable a line-by-line comparison of actual revenue and costs against budget as the year progresses.</p> | <ul style="list-style-type: none"> <li>Neither management nor the Board of Trustees is able to make a fully informed assessment of progress during the year and early warning signals are potentially concealed.</li> </ul>  | <ul style="list-style-type: none"> <li>The budget should be time phased in order to facilitate a full variance analysis at the end of each month.</li> <li>The recognition policy for grant income for management account purposes should be reconsidered. It may be that recognition on a monthly basis, rather than all in January or February when it is physically received, would help to better represent financial performance. A similar approach should be taken with other income received in advance, i.e. membership income.</li> </ul> | <ul style="list-style-type: none"> <li>With effect from 2010.</li> </ul> |
| <p>The annual budget is prepared only for the statement of performance and does not include a budgeted cash flow or balance sheet.</p>   | <ul style="list-style-type: none"> <li>The risk of cash flow difficulties are increased if no budget is prepared, particularly in a seasonal business like Jersey Heritage.</li> <li>Whilst in the past the receipt of the ESC grant in full in January has resulted in a reasonable cash position for the majority of the year, we feel it may be beneficial to phase the payment of the grant in order to help the Trust better manage its finances, so the cash flow forecast in particular would be important in this scenario.</li> </ul> | <ul style="list-style-type: none"> <li>The budget should include budgeted cash flows, phased on a monthly basis so that the cash position can be tracked on a more formal basis and variance analysis carried out.</li> <li>We acknowledge that budgeting or projecting the balance sheet may not add value given the nature of the business however the inclusion of a budgeted balance sheet on a monthly basis provides a useful check of the integrity of the financial performance and cash flow budgets.</li> </ul>                           | <ul style="list-style-type: none"> <li>With effect from 2010.</li> </ul> |



| Observation  | Risk   | Recommendation   | Priority  |
|--|--|--|---|
| <p>There are in excess of 20 budget holders in the organisation, which is excessive in the context of a permanent staff of between 60 and 70.</p> <p>These budget holders can be at any level within the staff grading structure, and there is no formal procedure to require the line manager or head of the relevant department to review and approve budget requests before submission to the finance team.</p> | <ul style="list-style-type: none"> <li>■ Responsibility for financial matters are overly delegated, which we believe may have resulted in a lack of clarity and also a reduced level of 'ownership' by the individual departmental heads of their areas of income and expenditure.</li> </ul>  | <ul style="list-style-type: none"> <li>■ The Finance Director should reconsider the annual budget setting process with a view to reducing the number of budget holders significantly.</li> <li>■ We would suggest that only line or senior managers are approved to make budget requests and hold full responsibility for each category of income and expense within their remit.</li> <li>■ Whilst we understand the motivation for implementing the current budgeting system, which was intended to empower and obtain increased buy-in from more junior staff, and was expected to improve performance and morale, under current financial circumstances it would be beneficial for senior management to take back full control of this.</li> </ul> | <ul style="list-style-type: none"> <li>■ To be implemented during 2010 with the 2011 budget setting process fully adopting the new system.</li> </ul> |
| <p>The chart of accounts in Sage is extensive and is regularly changed with new codes added. This is often at the request of budget holders who want to improve their own review processes but has affected the consistency and comparability of information to some degree and created a chart of accounts which is very detailed. Any Sage user can make these changes.</p>                                      | <ul style="list-style-type: none"> <li>■ Reduced levels of control by the Finance Director who should approve any changes, and only when strictly necessary.</li> <li>■ Possible lack of consistency and comparability of financial information.</li> <li>■ Affects efficiency of preparation of management accounts and other reports which are driven by the Sage accounting records.</li> </ul> | <ul style="list-style-type: none"> <li>■ The current chart of accounts should be reviewed to determine its suitability and any necessary changes made with effect from 1 January 2010.</li> <li>■ Any requests for new ledger codes or changes to existing ones should be approved by the Finance Director.</li> </ul>   | <ul style="list-style-type: none"> <li>■ During 2010, to be fully implemented by 2011.</li> </ul>   |

| Observation   | Risk   | Recommendation   | Priority   |
|---|--|--|--|
| <p>Management accounts are prepared by the finance director on a quarterly basis; however these are not circulated to other members of staff or the Board of Trustees.</p> <p>The quarterly management accounts do not include comparison to budget and variance analysis.</p>  | <ul style="list-style-type: none"> <li>■ Financial information being used by the Trustees for decision making is often a highlights report only.</li> <li>■ In the absence of comprehensive and regular financial reporting the complete financial performance and position of the Trust is unlikely to be fully understood by anyone other than the Finance Director. This may foster isolation of the FD who would benefit from increased interaction from others in the organisation on detailed financial matters. It also presents a business continuity risk.</li> <li>■ A lack of independent review creates additional risk of error.</li> </ul> | <ul style="list-style-type: none"> <li>■ Management accounts should be prepared on a monthly basis following a formal close procedure for posting entries in Sage to ensure accurate cut-off of reported figures.</li> <li>■ The report should include comparison to budget, variance analysis and commentary, together with a re-forecast if appropriate.</li> <li>■ These should be circulated to the Director and Board of Trustees and form part of the standing agenda for Board meetings or breakfast briefings.</li> <li>■ We understand that the formation of a finance sub-committee is being undertaken. During this difficult time for the Trust, and any period of transition, we would recommend that this group meets monthly to review the management accounts pack so that the detail can be discussed in a less formal and less time restricted environment.</li> </ul> | <ul style="list-style-type: none"> <li>■ With effect from 2010.</li> </ul> |
| <p>There have been a number of changes in presentation of certain items in the financial statements over the years with no restatement of comparatives to ensure consistency and comparability.</p> <p>For example, both the Historic Buildings service line and the Forts and Towers division were originally reported in Restricted funds, and then later transferred to the Unrestricted Fund.</p> <p>There were also instances noted where expenses were netted against income, followed by a grossing out in the presentation.</p> | <ul style="list-style-type: none"> <li>■ Reduced comparability of management information and financial statements.</li> <li>■ Key ratios, such as the proportion of self generated income, may be manipulated if the reporting of line items in different funds in different years (although we note that any instances observed were permanent reclassifications rather than being indicative of “cherry picking” to present the most favourable position).</li> </ul>  | <ul style="list-style-type: none"> <li>■ Where valid changes need to be made to the classification of items or business lines then comparatives in the annual financial statements should be amended if it is considered to significantly affect a user’s view of the accounts. If insignificant or immaterial it may be helpful to adjust comparatives in the management accounts only.</li> <li>■ Income and expenses should generally not be netted-off.</li> </ul>   | <ul style="list-style-type: none"> <li>■ To note going forward.</li> </ul> |

| Observation   | Risk   | Recommendation   | Priority   |
|---|--|--|--|
| <p><b>No detailed fixed asset register is maintained and all items are recorded as disposals in the accounting records as soon as they become fully depreciated.</b></p>  | <ul style="list-style-type: none"> <li>■ The Trust will find it difficult to justify the assets acquired with public money if ever required.</li> <li>■ Assets could be misappropriated with no means of identifying that fact through a fixed asset verification or audit.</li> <li>■ The accounting records may not be fully reflective of the asset base in use within the business.</li> <li>■ It may be more difficult to anticipate and plan for future capital needs if a detailed record of assets in use is not available.</li> </ul> | <ul style="list-style-type: none"> <li>■ We are aware that a list of assets in use in each site is maintained, to capture moveable items in particular.</li> <li>■ A fixed asset register should be compiled by undertaking a physical check of items in use within the business (using existing asset lists) and be kept up to date with all additions and disposals.</li> </ul>  | <ul style="list-style-type: none"> <li>■ During 2010.</li> </ul> |
| <p><b>The accounting policy for items of income received in a single installment but relating to a longer period is to recognise the amount in full as income immediately on receipt without deferral in whole or part irrespective of the date of receipt.</b></p> <p><b>As an example, both the grant received from ESC and membership income is recognised in full when collected.</b></p> | <ul style="list-style-type: none"> <li>■ Whilst this is likely to be a materially acceptable policy in terms of UK GAAP and for use in the annual financial statements (as both tend to follow the calendar year to 31 December), it results in a misleading position in the management accounts, particularly in the earlier months of the year as income is all recognised up front, making the performance and position appear more positive than the underlying reality.</li> </ul>  | <ul style="list-style-type: none"> <li>■ Consider adopting alternative accounting policies to appropriately phase any relevant items of income over the period to which they relate.</li> <li>■ We have separately recommended that ESC consider whether payment of the full grant at the beginning of the year is appropriate and, in the event that this process is changed, the accounting for the grant will alter to follow the payment pattern.</li> </ul> | <ul style="list-style-type: none"> <li>■ During 2010.</li> </ul> |

| Observation   | Risk  | Recommendation   | Priority   |
|---|---|--|--|
| <p>The quarterly activity and performance report contains a number of non-financial variables such as the number of bookings for Heritage Lets and Venues, number of membership sales and similar. However, no comparisons between the financial results arising from these activities are included, such as average revenue per Heritage Venues booking, average revenue per membership etc.</p> | <ul style="list-style-type: none"> <li>■ Review of financial performance is taking place at a high level when the Finance Director compiles the management accounts. However, no formal and consistent analytical review is undertaken to support that the income generated, or costs incurred, appear reasonable compared to the level of activity. As a result anomalies may not be identified and the information to support, for example, pricing decisions, is not as robust as it might be.</li> <li>■ For example and to illustrate one possible risk. If Heritage Venue income was reported without any other performance metric, a reviewer might consider that, say, income of circa £50,000 in each of two consecutive financial years represented a stable result. But their view of the stability and robustness of that income stream would likely change if a second metric of “number of individual venue hires” was introduced and showed 20 in the first period compared with only 5 in the second period.</li> </ul> | <ul style="list-style-type: none"> <li>■ In developing a series of financial and non-financial KPIs to monitor the business (and to report to ESC) consideration should be given to linking the financial and non-financial aspects to provide support for accuracy of recording and to prevent the possibility of fraud or other error (for example a Heritage Let property being rented at an unauthorised price reduction), as well as to highlight risks or vulnerabilities in the trading business.</li> <li>■ We would also recommend that the ticket value of “free” admissions is monitored (as presented in Section 9) which will supplement data already captured on footfall and admissions revenue as an early warning of new trends.</li> </ul>   | <ul style="list-style-type: none"> <li>■ During 2010.</li> </ul> |
| <p><b>Jersey Heritage is not alone in its pursuit to preserve, protect and provide access to local Island heritage.</b></p>   | <ul style="list-style-type: none"> <li>■ Specifically, the Societe Jersiaise and the National Trust for Jersey have similar ‘heritage missions’, albeit focussed on scholastic research and property and land management / ownership respectively. Both of these organisations also promote heritage and both rely, to a large extent, on legacies, gifts and bequests from the general public.</li> <li>■ It would appear that these organisations will inevitably compete for funding from a diminishing local pool, which could be damaging.</li> </ul>  | <ul style="list-style-type: none"> <li>■ A wider review of the funding and management of the Island’s heritage should encompass a review of the current and potential interaction of these organisations for mutual benefit.</li> <li>■ A key objective would be the removal of any actual or perceived ‘tension’ that may exist as regards funding and the definition of the precise role and responsibilities of each organisation, and in particular the roles and responsibilities of the Societe Jersiaise and Jersey Heritage (we have previously described the perception that these organisations often “step on each others toes”).</li> <li>■ To help facilitate this ESC should consider providing the grant directly to the Societe Jersiaise rather than through Jersey Heritage as a conduit.</li> </ul> |  |

## 5 Organisational structure

- The current organisational structure of Jersey Heritage is set-out in the table opposite.

### Board of Trustees

- We have discussed the composition of the Board of Trustees within Section 4. In the table opposite we have provided a one-line biography for each Trustee, in order to provide some very brief information as to each Trustee’s background. We acknowledge that this type of brief summary cannot describe the achievements and accomplishments of each individual.
- The Trustees comprise individuals with a diverse and relevant set of complimentary skills, have proven track records and, based on our meetings with them, would all appear committed to their role.

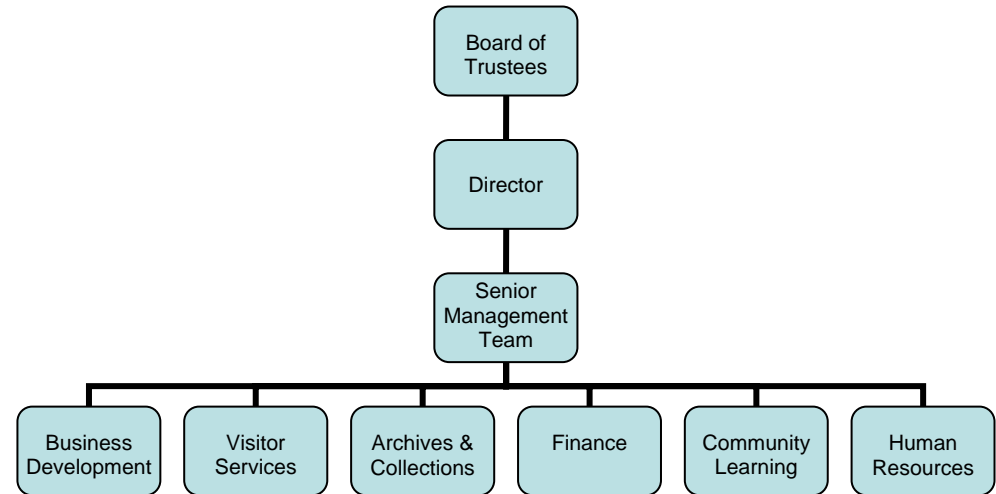
### Directors

- The Director and the Finance Director head-up the organisation on a day-to-day basis, with the Director primarily accountable to the Board of Trustees.
- Both the Director and Finance Director have worked for Jersey Heritage for circa 20 years; the Director has acted in that role since July 2003, following the departure of the previous Director.

### Senior management forum

- The directors are supported by a senior management team, which comprises a member from each of the six functions of the Trust, being (i) Visitor Services, (ii) Community Learning, (iii) Archives and Collections, (iv) Business Development (which includes both the ‘Heritage Venues’ and ‘Heritage Lets’ business activities), (v) Finance, and (vi) Human Resources and Administration.

### Organisation structure



Source: JHT organisation chart

### Board of Trustees – individual backgrounds

| Name            | Background  |
|-----------------|---|
| Clive Jones     | Retired, ex-MD Citibank in Jersey; holds various directorships                          |
| Rowland Anthony | Retired, ex-BBC; current President of the Societe Jersiaise                             |
| Simon Crowcroft | Constable of St Helier, longest-serving Trustee   |
| Geoffrey Crill  | Founding Partner of Crill Canavan (a leading Jersey law firm)                           |
| Blair Gould     | Retired (5 yrs), ex-Grindlays Bank (overseas and Jersey)                                |
| Philip Le Brocq | Leadership Consultant; Governor of Victoria College                                     |
| Paul Nicolle    | Retired (2 yrs), ex-States Senior HR Officer; Blue Badge Guide                          |
| Jonathan Voak   | Founder of Atelier Ltd (art business); previously managed The Wellington Museum, London |

Source: BDO analysis; note, this represents the Trustee board at the time of the review, which has subsequently changed

### Human Resources function

- The head of Human Resources has worked for Jersey Heritage since September 2007, and works part-time (which suits the current requirements of the organisation).
- The expertise of this key individual, as a result of her background within large financial services companies in the Island, has been important during 2009, and her role has been supported by access to external advice as a result of the 'Law at Work' retainer.

### Remuneration and benefits

- Remuneration and benefits are covered in Section 12, Staff costs.

### Training

- We are advised that training is provided to staff appropriate to their position, and that during the last 12 months significant work has been put into internal communication and training, in light of the difficulties facing the Trust.
- Whilst there is a staff performance appraisal system operating within Jersey Heritage, there are plans to review and develop the system during 2010, with internal training sessions to be used to introduce this to staff. The Trust has already started work with specialist consultants to implement improvements in this area.

### Investors in People

- The Trust is proud of its accreditation as an Investor in People, which it has held since 2002, and continues to hold following a full reassessment at the end of 2008. The report from the last review describes a staff that is passionate and enthusiastic about what they do, and feel that their working environment is a community.
- Interestingly, one of the key outcomes described in the Investors in People report was a sense of ownership and empowerment felt by the staff. Whilst this is extremely positive for any employer, it may also have pitfalls, which could include an increased resistance to change. We draw a parallel here with our view that there has been an excessive delegation of responsibility for financial budgets.
- The main areas for development identified through the Investors in People review were inconsistencies in management approaches, areas of development for managers, effectiveness of team meetings and the need for a consistent approach to training.

| Observation   | Issue  | Recommendation  |
|---|--|---|
| <p><b>We have previously identified the fact that two of the current Trustees, Messrs Crill and Le Brocq, are due to retire as Trustees in February 2010.</b></p>   | <ul style="list-style-type: none"> <li>■ At that point, the Board of Trustees will not be quored, given the requirement that the Board comprises at least eight representatives.</li> <li>■ The Board of Trustees will be losing two experienced Trustees who have each served two terms, and in Mr Crill the Board has previously possessed legal expertise.</li> </ul> | <ul style="list-style-type: none"> <li>■ We understand, based on our discussions with the Chairman of the Board of Trustees that this matter is currently being considered and it is intended to recruit new Trustees into these vacant roles, with a preference to recruit individuals with commercial, financial and/or legal backgrounds at this stage, given the current requirements of the Trust.</li> <li>■ The recent appointment of the Honorary Financial Adviser will also assist the Board of Trustees going forward.</li> <li>■ We recommend that the Trustee recruitment process become an immediate priority given the impending retirements.</li> </ul> |
| <p><b>We have sensed from our meetings with the Executive Directors and the Trustees, that the Trust places considerable reliance in the current Finance Director.</b></p> <p><b>The Finance Director will be a key factor in achieving a restructure of the Trust's operations and activities, and in developing the financial reporting to both the Trustees and ESC.</b></p> | <ul style="list-style-type: none"> <li>■ Financial policies and procedures need to be documented, to enable this role to be covered during any period of absence.</li> <li>■ Consideration should be given as to whether there is proper support internally for the Finance Director, and thus sufficient resilience within the Finance function as a whole.</li> </ul>  | <ul style="list-style-type: none"> <li>■ The appointment of the Honorary Financial Adviser will provide a sounding-board to the Finance Director during the inevitable period of restructure.</li> <li>■ We consider that the Honorary Financial Adviser will, in due course, be best placed to form a view on the resilience of the Finance function and make relevant recommendations to the Board of Trustees.</li> </ul>  |
| <p><b>We have already noted, elsewhere in this Report, the view shared by the Trustees that the employees are committed to the Trust and motivated.</b></p>   | <ul style="list-style-type: none"> <li>■ A protracted restructure process may damage the motivation of the employees; particularly given there will have been considerable uncertainty within the organisation since the first publicity of financial difficulty, in Spring 2009.</li> </ul>   | <ul style="list-style-type: none"> <li>■ It is in the best interests of staff as a whole that the Trust now develops a medium-term strategy in conjunction with ESC, and implements any changes such that the staff, and volunteers, can again be certain as to their own future roles and that of the Trust.</li> </ul>  |

## 6 Financial overview

### Financial reporting framework

- The audited financial statements of Jersey Heritage are prepared in accordance with the Statement of Recommended Practice on Accounting and Reporting by Charities (the “SORP”).
- The SORP requires a Statement of Financial Activities (a ‘SOFA’) be presented, as opposed to a profit and loss account, and this statement is presented for each separate Fund.
- The surplus / (deficit) reported on each Fund in each year from 2006 is shown in the table opposite, and analysed further below. We draw attention to the table footnote regarding the 2009 figures.

### Unrestricted Fund

- The Trust’s principal Fund, which represents the majority of the Trust trading operations, is the general Unrestricted Fund. This is discussed in more detail on the pages that follow and throughout this Report.

### Other funds

- Other funds that have separate reported statements of performance are as follows:

### Designated Funds

- These are also unrestricted funds, in that the designation of certain funds by the Trustees to be used for specific purposes in the future is not itself a legally binding decision (unless a separate trust is declared) and the funds can be re-designated at a later date.
- Jersey Heritage currently maintains only one Designated Fund, being the Societe Jersiaise Joint Fund, as shown opposite.

### Statement of Financial Activities, as reported

|   | FY 2006A           | FY 2007A         | FY 2008A         | 9M 2009A                   |
|---|--------------------|------------------|------------------|----------------------------|
|   | Audited            | Audited          | Unaudited        | Draft                      |
| Surplus / (deficit)   | £                  | £                | £                | £                          |
| Unrestricted Fund   | 30,286             | (42,680)         | (451,684)        | 776,659                    |
| Designated Fund   | -                  | -                | (1,690)          | (1,144)                    |
| Restricted Fund   | (173,318)          | (15,257)         | 169,397          | 86,932                     |
| Heritage Fund   | (1,053,297)        | (201,707)        | (217,200)        | 17,953                     |
| <b>Net outgoing resources, before transfers between Funds</b> | <b>(1,196,329)</b> | <b>(259,644)</b> | <b>(501,177)</b> | <b>880,400<sup>1</sup></b> |

Source: Financial statements (the 2008 accounts remain unsigned at the time of this review)  
 (1) Note, this is the outcome as at 30 September 2009 based on management reporting - it includes the full amount of the ESC grant received as at that date (i.e. prior to the ‘bail-out’ funding in Q4) and other ‘annual’ income, including membership income. We have made recommendations elsewhere in this Report regarding the need to time-phase these receipts so as to produce more robust management accounts results going forward. We note that the full year 2009 forecast, as at the date of drafting this Report, is a deficit before “bail-out” grant

### Incoming and outgoing resources – Designated Fund

|  | FY 2006A | FY 2007A | FY 2008A       | 9M 2009A       |
|--|----------|----------|----------------|----------------|
|  | £        | £        | £              | £              |
| States grant                                 | 41,266   | -        | -              |                |
| Transfer to Unrestricted Fund                | (41,266) | -        | -              |                |
| Total income                                 | -        | -        | -              |                |
| Societe grant payable                        | (41,266) | -        | -              |                |
| Transfer from Unrestricted Fund              | 41,266   | -        | -              |                |
| Sites and collections                        | -        | -        | (1,690)        | (1,144)        |
| <b>Deficit as reported, before transfers</b> | <b>-</b> | <b>-</b> | <b>(1,690)</b> | <b>(1,144)</b> |

Source: Financial statements and BDO analysis



### *Restricted Funds*

- Restricted Funds are subject to specific trusts and legally distinct from the Unrestricted Funds as a result of the way in which they were created, such as a declaration by the donor through a legal process or the substance of, for example a public appeal for a stated purpose.
- Restricted funds include the Ancient Monuments Fund (the “AMF”, governed by the usufruct), the Forts and Towers Fund (the “F&T Fund”, under a management agreement with Property Holdings) and the Children’s Home Enquiry Records Fund, created under a service level agreement.
- A summary of movements on the Restricted Funds (incoming and outgoing resources) is provided opposite.
- Admissions income represents the transfer to the AMF from the Unrestricted Fund, being the appropriate proportion of the total admissions revenue from Mont Orgueil and Elizabeth Castle. Since 1 January 2009 the amount allocated to the Restricted Fund was reduced to 10% from 23%, and the Trust is currently waiting for formal approval from ESC to amend this to 17% going forward. In 2008 the amount transferred to the Restricted Fund increased from around £105,000 to £140,000 on account of Jersey Heritage operating the ferry service directly and collecting the additional revenue in admissions.
- Bank interest is allocated to the Fund in relation to the cash held for specific purposes, primarily the F&T Fund and the AMF.
- Grants for specific purposes are allocated as appropriate to the Fund and all associated expenditure also passes through as outgoing funds. The Restricted Fund balance sheet is discussed in detail in Section 8.

### *Incoming and outgoing resources – Restricted Fund*

|  | FY 2006A         | FY 2007A        | FY 2008A       | 9M 2009A      |
|--|------------------|-----------------|----------------|---------------|
|  | £                | £               | £              | £             |
| <b>Incoming Resources</b>                          |                  |                 |                |               |
| States grants                                      | 467,029          | -               | 65,000         | 70,000        |
| Admission income                                   | 109,419          | 104,564         | 141,412        | 57,128        |
| Bank interest                                      | 4,437            | 48,317          | 62,912         | 71,642        |
| Rent and space hire                                | 29,565           | -               | -              | -             |
| Publications                                       | 110              | 116             | -              | -             |
| Fees and charges                                   | 8,321            | -               | -              | 10,000        |
| Sponsorship grant requests                         | 12,376           | -               | -              | -             |
|  | 631,257          | 152,997         | 269,324        | 208,770       |
| <b>Outgoing Resources</b>                          |                  |                 |                |               |
| Sites and Collections                              | (592,075)        | (58,042)        | (98,640)       | (121,838)     |
| Historic Building Services                         | (63,464)         | -               | -              | -             |
| Special projects                                   | (149,036)        | (110,211)       | -              | -             |
| Jersey Archive                                     |                  |                 | (1,287)        | -             |
|  | (804,575)        | (168,255)       | (99,927)       | (121,838)     |
| <b>As reported, before transfers</b>               | <b>(173,318)</b> | <b>(15,257)</b> | <b>169,397</b> | <b>86,932</b> |
| Reclassification to Unrestricted Fund <sup>9</sup> | 10,380           | -               | (65,000)       | (10,456)      |
| <b>Pro-forma (deficit)/surplus</b>                 | <b>(162,938)</b> | <b>(15,257)</b> | <b>104,397</b> | <b>76,476</b> |

*Source: Financial statements and BDO analysis*

<sup>9</sup> The pro forma analysis undertaken ensures consistency of classification of items over the period presented. It has been necessary to present some items differently to the classification adopted in the financial statements.

### *Heritage Funds*

- Jersey Heritage has also classified certain funds as being Heritage Funds, which represent restricted capital funds, for example the Jersey Museum and Archive properties, the Augres Store and the defined benefit pension scheme liability.
- A summary of movements on the Heritage Funds (incoming and outgoing resources) is provided in the table opposite.
- Rental income is generated from letting residential properties on the site of the Sir Francis Cook Gallery. The bequest also included some cash, which together with the rental stream from the properties was intended to provide sufficient funds to cover maintenance obligations in relation the gallery building.
- Outgoing resources reflect the depreciation on the archive building (which is classified as a heritage asset), together with expenses relating to the operation of the Sir Francis Cook Gallery.
- Sites and collections expenses represent spend related to various projects on heritage assets, which explains the fluctuating level of expenditure over the period presented.
- The 2006 and 2007 figures included the expenditure on the Mont Orgueil restoration project (in 2007 this is only a residual spend). Thereafter the expenses relate to operating expenses of the SFCG.
- Central costs relate to the pension scheme deficit, and any actuarial adjustments or other charges relating to the pension are charged here.

### *Incoming and outgoing resources – Heritage Fund*

|                                      | <b>FY 2006A</b>    | <b>FY 2007A</b>  | <b>FY 2008A</b>  | <b>9M 2009A</b> |
|--------------------------------------|--------------------|------------------|------------------|-----------------|
|                                      | <b>£</b>           | <b>£</b>         | <b>£</b>         | <b>£</b>        |
| <b>Incoming Resources</b>            |                    |                  |                  |                 |
| Rents receivable                     | 34,791             | 36,438           | 38,647           | 31,974          |
| Bank Interest                        | 6,883              | 6,187            | 6,500            | -               |
|                                      | 41,674             | 42,625           | 45,147           | 31,974          |
| <b>Outgoing Resources</b>            |                    |                  |                  |                 |
| Sites and Collections                | (1,017,210)        | (65,498)         | (40,600)         | (14,021)        |
| Jersey Archive                       | (104,040)          | (104,040)        | (104,040)        | -               |
| Central Costs                        | 26,279             | (74,794)         | (117,708)        | -               |
|                                      | (1,094,970)        | (244,332)        | (262,347)        | (14,021)        |
| <b>As reported, before transfers</b> | <b>(1,053,297)</b> | <b>(201,707)</b> | <b>(217,200)</b> | <b>17,953</b>   |

*Source: Financial statements and BDO analysis*

### *Unrestricted fund*

- The Trust's principal fund, which represents the majority of the Trust trading operations, is the general Unrestricted Fund, which is summarised in the table opposite.
- Admissions income demonstrates an increase of circa 22% over the period (1 January 2006 to 30 September 2009), although the 2006 admissions of £823,000 was lower than the normal level as a result of Elizabeth Castle being closed for part of the season due to the issues with the castle ferry service at that time (this is explained in further detail in Section 9).
- The increase in admissions income has been achieved in the face of declining tourist numbers, and shows that Jersey Heritage has been able to offset this through attracting more local visitors, albeit it has also been achieved through new income streams, price increases and additional marketing activity.
- Admissions income will become increasingly more difficult for the Trust to further increase (and/or current levels may come under pressure) as repeat visits from locals will be affected by the ageing displays and exhibits at the sites and, potentially, the more limited number of temporary exhibits and activity days due to financial constraints.
- New income streams have been developed in the period, such as the Forts and Towers holiday lets (funded by a grant from the Tourism Development Fund and undertaken as a joint venture between Jersey Heritage, Property Holdings and Transport and Technical Services).
- However, during the same period costs (including marketing costs) have increased significantly, and by more than the value of new income generated. We discuss this further below.

### *Statement of Financial Activities, as reported – Unrestricted Fund*

|   | <b>FY 2006A</b> | <b>FY 2007A</b> | <b>FY 2008A</b>  | <b>9M 2009A</b> |
|---|-----------------|-----------------|------------------|-----------------|
|   | <b>Audited</b>  | <b>Audited</b>  | <b>Unaudited</b> | <b>Draft</b>    |
|   | <b>£</b>        | <b>£</b>        | <b>£</b>         | <b>£</b>        |
| <b>Income</b>                             |                 |                 |                  |                 |
| Admissions income                         | 823,262         | 933,157         | 1,048,814        | 1,004,160       |
| Contribution to AMF                       | (109,419)       | (104,564)       | (141,412)        | (57,128)        |
| Trading income                            | 146,569         | 261,075         | 291,445          | 327,138         |
| Contribution F&T Fund                     | -               | (48,317)        | (62,912)         | (71,642)        |
| Sponsorship and similar                   | 86,750          | 90,063          | 96,600           | 153,208         |
| Fees and charges                          | 25,731          | 65,017          | 58,318           | 47,201          |
| Total trading income                      | 972,893         | 1,196,431       | 1,290,853        | 1,402,937       |
| Grants received                           | 1,815,074       | 1,949,079       | 2,043,758        | 2,277,522       |
| Interest receivable                       | 41,065          | 35,930          | 19,223           | 916             |
| Total income                              | 2,829,032       | 3,181,440       | 3,353,834        | 3,681,375       |
| <b>Expenses</b>                           |                 |                 |                  |                 |
| Societe Jersiaise grant                   | -               | (41,266)        | (41,266)         | (41,266)        |
| Sites and collections                     | (1,338,081)     | (1,499,861)     | (1,920,778)      | (1,360,911)     |
| Visitor services and business development | (631,380)       | (678,826)       | (823,522)        | (677,348)       |
| Jersey Archive and collections            | (351,659)       | (396,432)       | (402,469)        | (302,149)       |
| Historic buildings                        | -               | (60,153)        | (71,528)         | (46,082)        |
| Management and administration             | (477,626)       | (547,582)       | (545,955)        | (476,960)       |
| Total expenses                            | (2,798,746)     | (3,224,120)     | (3,805,518)      | (2,904,716)     |
| <b>Surplus / (deficit) as reported</b>    | <b>30,286</b>   | <b>(42,680)</b> | <b>(451,684)</b> | <b>776,659</b>  |

*Source: Financial statements (the 2008 accounts remain unsigned at the time of this review)*  
*(1) Note, this is the outcome as at 30 September 2009 based on management reporting - it includes the full amount of the ESC grant received as at that date (i.e. prior to the 'bail-out' funding in Q4) and other 'annual' income, including membership income*

### Proforma statement of income and expense

- The total income and expenditure summary presented opposite is a pro-forma based on our own analysis of the reported performance statements and the underlying detail in the management accounts and accounting records. The total surplus / (deficit) reconciles to the figures as reported within the Trust's financial statements.
- We have sought to develop a fuller understanding of the financial performance of each area of the business including each individual site / attraction (which is presented as an analysis of the net cost or contribution from each individual site / attraction in Section 9, these being trading activities).
- We consider that the Trust's activities can be analysed between trading and non-trading, with non-trading activities principally comprising:
  - Grants received from the States of Jersey, and other non-trading income such as bank interest receivable;
  - Cost centres, which we have assessed as being the learning function operated by the Trust and central costs of running a finance department, human resources function and other central administrative support; and
  - Other activities, which are undertaken on behalf of the States of Jersey, being the Jersey Archive and the Historic Buildings Services (which is provided to the department for Planning and the Environment).
- The pro-forma presents items on a consistent basis throughout the period presented, for maximum comparability and consistency. As a result the surplus / (deficit) on the Unrestricted Fund presented in this table is not consistent with that reported in the financial statements (and presented on the preceding page).

### Pro-forma total income and expense – Unrestricted Fund

|   | FY 2006A             | FY 2007A               | FY 2008A                | 9M 2009A              |
|---|----------------------|------------------------|-------------------------|-----------------------|
|   | £                    | £                      | £                       | £                     |
| <b>Non-trading</b>                                  |                      |                        |                         |                       |
| <b>Grants</b>                                       |                      |                        |                         |                       |
| ESC   | 1,856,340            | 1,887,839              | 1,970,731               | 2,017,522             |
| ESC additional                                      | -                    | -                      | -                       | 200,000               |
| P&E Historic Buildings                              | 53,084               | 61,240                 | 73,027                  | 60,000                |
|   | <u>1,909,424</u>     | <u>1,949,079</u>       | <u>2,043,758</u>        | <u>2,277,522</u>      |
| Bank interest                                       | 41,065               | 35,930                 | 19,223                  | 916                   |
|   | <u>1,950,489</u>     | <u>1,985,009</u>       | <u>2,062,981</u>        | <u>2,278,438</u>      |
| <b>Cost centres</b>                                 |                      |                        |                         |                       |
| Learning  | (315,887)            | (343,386)              | (404,486)               | (271,769)             |
| Central costs                                       | (477,769)            | (547,586)              | (545,955)               | (476,957)             |
| Societe Jersiaise grant                             | (41,266)             | (41,266)               | (41,266)                | (41,266)              |
|   | <u>(834,922)</u>     | <u>(932,238)</u>       | <u>(991,707)</u>        | <u>(789,992)</u>      |
| <b>Net cost of other activities</b>                 |                      |                        |                         |                       |
| Jersey Archive                                      | (355,179)            | (389,098)              | (348,017)               | (288,858)             |
| Historic Buildings                                  | (63,464)             | (60,153)               | (71,528)                | (46,082)              |
|   | <u>(418,643)</u>     | <u>(867,894)</u>       | <u>(419,545)</u>        | <u>(334,940)</u>      |
| Non-trading surplus                                 | 696,924              | 603,521                | 651,728                 | 1,153,506             |
| Trading deficit                                     | (659,146)            | (638,594)              | (1,027,010)             | (358,979)             |
| Unallocated   | (17,871)             | (7,607)                | (11,401)                | (7,412)               |
|   | <u>19,907</u>        | <u>(42,680)</u>        | <u>(386,684)</u>        | <u>787,115</u>        |
| Surplus / (deficit) before transfers                |                      |                        |                         |                       |
| Net reclassified from Restricted Fund <sup>10</sup> | 10,380               | -                      | (65,000)                | (10,456)              |
|   | <u><b>30,287</b></u> | <u><b>(42,680)</b></u> | <u><b>(451,684)</b></u> | <u><b>776,659</b></u> |

Source: BDO analysis

<sup>10</sup> The pro forma analysis undertaken ensures consistency of classification of items over the period presented. It has been necessary to present some items differently to the classification adopted in the financial statements.

- The rate at which the trading deficit has been increasing has been as a result of a growing cost base rather than a decline in revenue generated from sites and services. As noted above, in terms of income the Trust appears to have performed well under challenging conditions to maximise the revenues it can generate itself. However, this growth in admissions revenues in the face of declining leisure visitors to the Island, as demonstrated in the chart opposite, is unlikely in our view to be sustainable.
- The growth in admissions revenues in 2006 shown on the graph is as a result of the restoration and refurbishment of Mont Orgueil. The work that had been taking place for many years was finally completed in 2006, following a period of complete closure of only 6 months. In 2007, the direct collection of the castle ferry revenue, under new arrangements with the new operator, also increased the reported admissions income.
- The trading deficit in 2007 was fairly consistent with that produced in 2006, but dramatic changes in the cost base occurred in 2008 following the acquisition by Jersey Heritage of the castle ferry service.
- Even after adjusting for the cost of the goodwill payment to the new operator to break the five year contract after only a year, there were major changes to the cost base of the business as a result of operating the ferries directly.
- These included the ferry and kiosk staff who were now directly on the payroll, as well as the modification and maintenance costs of the two amphibious vehicles.

**Rate of growth in trading deficit and increase in grant**

|   | FY 2007A         | FY 2008A         | 9M 2009A         |
|---|------------------|------------------|------------------|
|   | £                | £                | £                |
| <b>Trading deficit – pro-forma</b>            | (638,594)        | (1,027,010)      | (358,978)        |
| <b>Non-recurring items</b>                    |                  |                  |                  |
| Contract breakage/goodwill                    | -                | 121,777          | -                |
| Relocation of Museum archway                  | -                | 34,704           | -                |
| Pier Road wall                                | 10,855           | -                | -                |
|   | <u>10,855</u>    | <u>156,481</u>   | <u>-</u>         |
| <b>“Normalised” trading deficit</b>           | <u>(627,739)</u> | <u>(870,529)</u> | <u>(358,978)</u> |
| ESC grant (excluding “top-up” grant payments) | 1,887,839        | 1,970,731        | 2,017,522        |
| % increase year on year                       | 1.7%             | 4.4%             | 2.4%             |

Source: BDO working papers

**Tourist numbers versus admissions revenues**



## Seasonality

- The reported performance of the Trust on a quarterly basis is severely distorted by the receipt of the ESC grant in January each year, and the full recognition of the amount as income at that time. Thus the Q1 surplus is not a true reflection of performance in that period, and subsequent quarter results are also understated.
- Given that the Trust does not prepare a time phased budget to which actual results can be compared, the immediate recognition of grant income on receipt cannot be put in context of the expected result.
- We note in our recommendations for improvements in the financial reporting and control environment that an alternative accounting policy may be appropriate for management reporting purposes.
- This possibility will be able to be better considered after ESC have considered this Report and those undertaken by other parties and held a discussion with the Directors and Trustees of the Trust about which sites and activities it most values and intends to continue to fund, thus identifying a series of formal deliverables in return for its grant.
- This will represent a significant change to the approach that has been taken to date, in that the grant of circa £2 million is intended to support the Trust in pursuance of its objectives in the broadest and most general sense, with out, for example, specific financial targets or KPIs.
- It should be noted that as a result of not preparing and circulating management accounts, there is no proper process to ensure that the schedules prepared are correctly cut-off at the quarter end. The quarterly analysis set out in the table opposite includes transactions related to Q3 reflected in Q2 and as such is only an indicator. There is no readily available quarterly financial information relating to periods earlier than 2009.

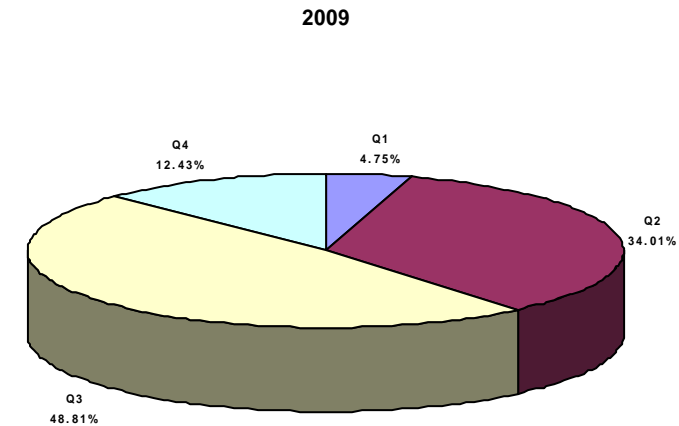
## Statement of Financial Activities as reported – seasonality

|   | Q1 2009A         | Q2 2009A         | Q3 2009A         | 9M 2009A         |
|---|------------------|------------------|------------------|------------------|
|   | Draft            | Draft            | Draft            | Draft            |
|   | £                | £                | £                | £                |
| Admissions income                         | 51,818           | 534,550          | 417,792          | 1,004,160        |
| Contribution to AMF                       | (1,855)          | (29,829)         | (25,444)         | (57,128)         |
| Trading income                            | 90,365           | 151,219          | 85,554           | 327,138          |
| Contribution F&T Fund                     | (31,057)         | (29,848)         | (10,737)         | (71,642)         |
| Sponsorship and similar                   | 57,850           | 72,460           | 22,898           | 153,208          |
| Fees and charges                          | 15,915           | 14,855           | 16,430           | 47,201           |
| <b>Total trading income</b>               | <b>183,036</b>   | <b>713,407</b>   | <b>506,493</b>   | <b>1,402,937</b> |
| Grants received                           | 2,017,522        | 260,000          | -                | 2,277,522        |
| Interest receivable                       | 810              | 106              | -                | 916              |
| <b>Total income</b>                       | <b>2,201,368</b> | <b>973,513</b>   | <b>506,493</b>   | <b>3,681,375</b> |
| <b>Expenses</b>                           |                  |                  |                  |                  |
| Societe Jersiaise grant                   | (41,266)         | -                | -                | (41,266)         |
| Sites and collections                     | (433,763)        | (540,020)        | (387,128)        | (1,360,911)      |
| Visitor services and business development | (185,047)        | (315,107)        | (177,194)        | (677,348)        |
| Jersey Archive and collections            | (91,665)         | (102,947)        | (107,537)        | (302,149)        |
| Historic buildings                        | (17,119)         | (15,182)         | (13,781)         | (46,082)         |
| Management and administration             | (155,170)        | (182,514)        | (139,273)        | (476,960)        |
|   | (924,030)        | (1,155,770)      | (824,913)        | (2,904,713)      |
| <b>Surplus/(deficit) as reported</b>      | <b>1,277,338</b> | <b>(182,257)</b> | <b>(318,420)</b> | <b>776,659</b>   |

Source: BDO analysis

- The ability of Jersey Heritage to generate income is driven by the traditional tourist season in Jersey, with Q2 and Q3 representing the best months of the year.
- The pie chart opposite shows that 49% of the admissions income generated from the attractions was in Q3, with Q2 producing 34%, Q1 5% and Q4 the remaining 12%.
- As explained above, the quarterly management accounts contain cut-off errors that mean the reported admissions income in Q2 exceeds that of Q3. This is clearly inaccurate because July, August and September are the busiest months at sites. The chart opposite has been prepared using the correct admissions revenues from an alternative source.
- The seasonality in the business demonstrates the importance of preparing a robust time-phased budget that can be used as a basis for variance analysis as the year progresses.
- The business is substantially a cash business from an income perspective and operates within normal supplier payment cycles in relation to expenses, so there are few major differences between the “profit and loss” figures and the cash flows, with certain exceptions, such as rent on the Maritime Museum which is payable on a quarterly basis in line with normal rental quarters.
- As a result the cash flows generated and utilised largely reflect the accounting treatment in the performance statement, however, this does not mean that planning for cash flows is not important.
- The expenditure of the business is largely fixed in the short term as a result of the business model adopted, particularly in respect of staff, the majority of which are employed permanently for the whole year rather than on a strictly seasonal basis.

### Admissions revenue 2009 – seasonal analysis



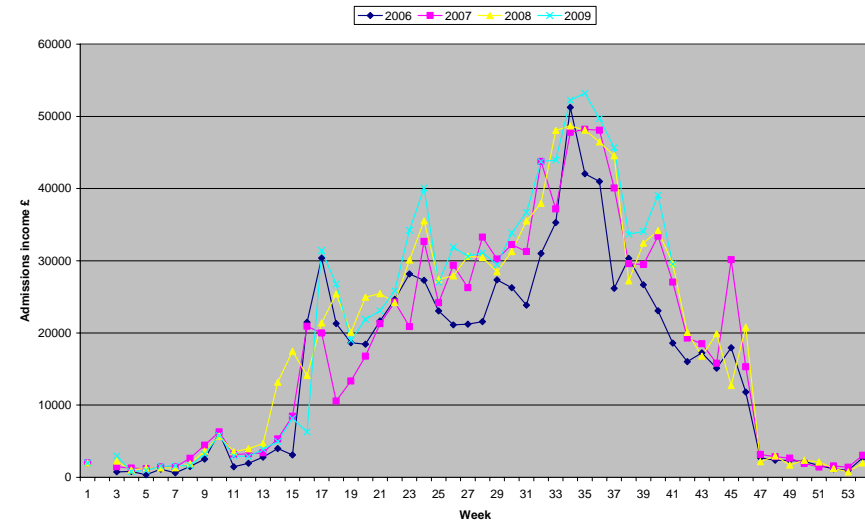
*Source: JHT prepared chart of admissions revenue*

- This means that during the winter months (Q4 and Q1), when income being generated from the attractions and Heritage Lets is lower, the expenditure does not drop significantly as would be expected in a seasonal business, given the large proportion of (effectively) fixed costs. In fact, some expenses are skewed towards the pre-season months, such as marketing costs which are substantially incurred before Q2 in any financial year.

### Admissions revenue by week

- The graph opposite shows weekly admission revenue for 2006, 2007, 2008 and 9M 2009.
- The seasonal pattern has remained approximately consistent over this time period, with slight variations by week depending on when the first and last week of the season falls in each year.
- Three of the six sites are closed during the winter; La Hougue Bie, Hamptonne and Elizabeth Castle, which close after the October half term and re-open at the beginning of the Easter holidays. Mont Orgueil also adopts reduced opening hours in the winter.
- Total admissions income has increased in each year, with the 9M 2009 indicating that 2009 is on track to exceed 2008.

### Admissions revenue by week



Source: JHT admissions data



### Normalised performance - Unrestricted Fund

- A number of non-recurring transactions of note have taken place during the period presented. In particular, expenditure which might be considered capital has been expensed through the SOFA over the review period and has impacted the level of reported surplus or deficit, as well as put additional pressures on the operational cash flows of the organisation.
- Judgement has necessarily been applied in assessing the transactions to be adjusted as non-recurring in order to arrive at a normalised surplus or deficit for each financial year presented. As well as the knowledge gained during the course of our work, we performed a detailed review of the nominal ledgers for each of the years/periods presented in order to extract the transactions and their values.
- The items of expenditure identified through review of the ledger as non-recurring or abnormal in nature have been analysed between capital expenditure (only where this has been recorded through the Trust's equivalent of a profit and loss account, the SOFA) and revenue expenditure. Tables providing a breakdown of the totals shown in the table opposite are provided on the subsequent pages.
- This "normalised" performance is considered to be more reflective of the underlying and "structural" financial performance of the Trust in terms of its operations. This analysis presents only the Unrestricted Fund and excludes any transaction which is recorded through any of the other funds – i.e. the Designated, Restricted or Heritage Funds.
- In the period presented, the first reported deficit arose in 2007, although the underlying position, having taken account of non-recurring expenditure, is around £10,000 less than the deficit shown in the accounts.

### Normalised performance – Unrestricted Fund

|  | FY 2006A      | FY 2007A        | FY 2008A         | 9M 2009A       |
|--|---------------|-----------------|------------------|----------------|
|  | £             | £               | £                | £              |
| Surplus / (deficit) before transfers                   | 19,907        | (42,680)        | (386,683)        | 787,115        |
| Add back adjustments                                   | 10,379        | -               | (65,000)         | (10,456)       |
| Surplus/(deficit) before transfers as reported         | 30,286        | (42,680)        | (451,683)        | 776,659        |
| Normalising adjustments:-                              |               |                 |                  |                |
| <i>Non-recurring income</i>                            |               |                 |                  |                |
| ESC additional grant                                   | -             | -               | -                | (200,000)      |
| States Greffe – one off capital grant                  | -             | -               | -                | (17,060)       |
| Association of Jersey Charities grants                 | -             | -               | (1,500)          | (18,500)       |
| TDF grants   | -             | -               | -                | (15,000)       |
| Jersey Museum Archway                                  | -             | (15,000)        | -                | -              |
| <i>Non-recurring expenses</i>                          |               |                 |                  |                |
| Capital (see below)                                    | 11,765        | 11,419          | 47,339           | 29,789         |
| Revenue (see below)                                    | -             | 12,436          | 220,395          | 69,402         |
| <b>Normalised surplus / (deficit) before transfers</b> | <b>42,051</b> | <b>(33,825)</b> | <b>(185,449)</b> | <b>625,290</b> |

Source: BDO working papers

- The 2008 results record a deficit of £452,000, and showed for the first time the severity of the financial issues that the Trust is facing. Although a large part of the deficit related to the one off expenses incurred when the castle ferry operation was acquired, even after adjusting for these the normalised deficit was around £185,000. The level of the structural deficit is not necessarily equivalent to the normalised deficit presented here.

### ***Non-recurring capital expenditure***

- There is no written policy in respect of capital expenditure and the accounting treatment thereof, so whilst there is formally no threshold below which all expenses are expensed many of the lower value purchases are simply recorded as expenses in the year in which the purchase is made.
- This type of “de-minimus” capitalisation policy should only be applied by an organisation on the grounds of immateriality otherwise there may be a risk of non-compliance with accounting standards, either in respect of a single transaction, or by the cumulative effect of a number of transactions.
- It is outside the scope of our work to comment explicitly on accounting policies or treatment of particular transactions, however, the cumulative effect of expensing the capital items which are set out in the table opposite does help to inform about the underlying performance of the Trust. The accounting treatment adopted has decreased the reported surplus or increased the reported deficit by the total shown in the table opposite, which would be partially offset in the event of capital treatment by a lower expense representing the depreciation charge.
- FY 2008 is of particular note, whereby the costs of the castle ferry kiosk, plant and machinery at the museum and various motor vehicles resulted in around £35,000 of capital expenditure being accounted for as an expense. This accounts for circa 8% of the reported deficit in the SOFA.
- Certain items, such as those acquired in 2006, may have been expensed immediately as a result of a short useful economic life of those assets or given they were replacement purchases.

### ***Non-recurring capital expenditure recorded in performance statement***

|   | FY 2006A | FY 2007A | FY 2008A | 9M 2009A |
|---|----------|----------|----------|----------|
|   | £        | £        | £        | £        |
| Castle ferry kiosk                      | -        | -        | 20,123   | -        |
| Maritime Museum stair-lift              | -        | -        | 1,500    | -        |
| Maritime Museum air con                 | -        | -        | -        | 29,789   |
| Jersey Museum auto doors                | -        | -        | 6,430    | -        |
| La Hougue Bie - windows                 | -        | 564      | 12,036   | -        |
| Purchase of motor vehicles              | 1,500    | -        | 7,250    | -        |
| Pier Road wall                          | -        | 10,855   | -        | -        |
| Jersey Museum - audio visual hardware   | 2,300    | -        | -        | -        |
| Jersey Museum - air con                 | 2,315    | -        | -        | -        |
| Maritime Museum - audio visual hardware | 2,300    | -        | -        | -        |
| Maritime Museum - projectors            | 1,050    | -        | -        | -        |
| Archive video projector                 | 2,300    | -        | -        | -        |
|   | 11,765   | 11,419   | 47,339   | 29,789   |

*Source: BDO analysis*

- In addition to the accounting effect, the lack of a full strategy for making small or large capital purchases is placing additional strain on the operating cash flows of the business. The lack of a fully integrated performance, cash flow and balance sheet budget which includes planned fixed asset additions may also have affected the impact this spend has had on financial performance in general.

### Non-recurring revenue expenditure

- Significant items of non-recurring revenue expense have arisen over the period, particularly in FY 2008 and 9M 2009.
- A total investment of £28,200 has been made in redesigning the website over the last two years, together with a spend of £33,705 on consultant's fees which related to the retail offering at Jersey Heritage sites together with the fees of consultants which conducted research into the public value of Jersey Heritage. A summary of the results of this exercise are presented in Section 3.
- The relocation of the archway at Jersey Museum was necessary to prevent the Museum site from losing prominence following the redevelopment and extension of the Royal Yacht Hotel. Whilst the spend took place in 2008, the Trust had received compensation payments from the Royal Yacht Hotel of £20,000 in 2005 and £15,000 in 2007 (shown in the table on page 65) which, together with a contribution from WEB (the Waterfront Enterprise Board), funded the works in full.
- Non-recurring employee costs incurred during the period presented totalled £51,076 and included significant professional fees. This type of exceptional expense has placed the Trust under added pressure in 2007 and 2008 because no cash reserve had been built-up to deal with these costs, which related to employee dispute(s).
- The audio guides were funded by a grant from the Tourism Development Fund and the corresponding income is adjusted in the table above as non-recurring. In the past, similar grants and the corresponding spend have been treated separately as Designated funds and, as recommended elsewhere in this Report, we believe that the classification of certain balances and / or transactions should be consistently applied across financial periods irrespective of whether a balance is left on the Designated Fund or not.

### Non-recurring revenue expenditure

|   | FY 2006A | FY 2007A | FY 2008A | 9M 2009A |
|---|----------|----------|----------|----------|
|   | £        | £        | £        | £        |
| Castle Ferry goodwill / contract breakage | -        | -        | 121,777  | -        |
| Crew and driver training                  | -        | -        | 12,189   | -        |
| Jersey Museum arch relocation             | -        | -        | 34,704   | -        |
| Employee matters                          | -        | 12,436   | 38,640   | -        |
| Website design costs                      | -        | -        | 10,400   | 17,800   |
| Opinion leader research                   | -        | -        | -        | 21,020   |
| Audio guides (TDF funded)                 | -        | -        | -        | 14,482   |
| Retail Matters consultancy                | -        | -        | 2,685    | 10,000   |
| Membership database development           | -        | -        | -        | 6,101    |
|   | -        | 12,436   | 220,395  | 69,403   |

Source: BDO analysis

## Cash flows

- The financial statements report cash flows on a total only basis and not reported separately by Fund. For a fully transparent format of reporting, which enables a user to identify whether the cash backing related to any specific Fund has been “loaned” to the Unrestricted Fund, we would recommend that the accounts (or management accounts) analyse the cash flows by specific fund.
- The net cash outflow in 2008 was primarily caused by exceptional transactions, particularly the acquisition of the castle ferry service.
- The normalised cash flow for the same year shows a much improved position at around £15,000 outflow after the non-recurring items have been adjusted for. This demonstrates that if alternative funding had been found for the acquisition of the castle ferry service, such as long term debt to match the profile of the asset being funded, that the operating cash outflow of the business would have been reduced to around £133,000. This would have been a far more manageable position to deal with in the short term, although would not resolve the long term issue which would have placed additional strain on the operating cash flows to service the interest and make capital repayments.
- The net outflow of £684,000 would have been far higher if the cash balances specifically related to the Designated, Restricted and Heritage Funds had been preserved rather than utilised to fund operating cash outflows. Had all these funds been ring-fenced the cash flow crisis would have arrived sooner with a requirement for additional funding at the end of 2008, rather than the end of 2009.
- The cash flow is currently highly seasonal, not only as a result of the traditional tourist season which drives the admissions income but also as a result of the annual payment of the grant. Q1’s cash flow will typically look healthy, with the second quarter showing a large net outflow.

## Summary total cash flow as reported

|  | FY 2008A         | Q1 2009A         | Q2 2009A         | Q3 2009A      |
|--|------------------|------------------|------------------|---------------|
|  | £                | £                | £                | £             |
| Net cash flow from operating activities            | (189,623)        | 1,104,422        | (261,369)        | 124,085       |
| Interest receivable                                | 25,723           | 810              | 106              | -             |
| Purchase of fixed assets                           | (464,991)        | (17,088)         | (8,758)          | (39,115)      |
| Loan repayments                                    | (27,500)         | -                | (27,500)         | -             |
| Pension liability payments                         | (28,000)         | -                | -                | -             |
| <b>(Decrease) / increase in cash in the period</b> | <b>(684,391)</b> | <b>1,088,144</b> | <b>(297,521)</b> | <b>84,970</b> |

Source: BDO analysis

## Normalised cash flow

|   | FY 2008A        | Q1 2009A         | Q2 2009A         | Q3 2009A      |
|---|-----------------|------------------|------------------|---------------|
|   | £               | £                | £                | £             |
| (Decrease) / increase in cash for year / period as reported | (684,391)       | 1,088,144        | (297,521)        | 84,970        |
| Non-recurring items:-                                       |                 |                  |                  |               |
| Additional ESC grant  | -               | -                | (200,000)        | -             |
| One off grants for capital expenditure                      | (1,500)         | -                | (35,560)         | -             |
| One off grants for revenue expenditure                      | -               | -                | -                | (15,000)      |
| Purchase of castle ferry service                            | 552,443         | -                | -                | -             |
| Other capital expenditure                                   | 19,996          | 19,039           | 10,750           | -             |
| Other revenue expenditure                                   | 98,618          | 32,514           | 8,806            | 28,083        |
| <b>Normalised cash flow</b>                                 | <b>(14,834)</b> | <b>1,139,697</b> | <b>(513,525)</b> | <b>98,083</b> |

Source: BDO analysis

- In Q3 the self generated revenues increase and spend on certain services such as marketing and PR will reduce, as these are primarily incurred pre-season in Q1 and Q2. As a result, positive cash flows are generated in this quarter.
- Although information is not available to present a Q4 cash flow, either for 2008 or 2009, we know that the business becomes cash intensive and generates a much reduced level of admission income. The Trust has a fairly consistent level of expenditure on a quarterly basis and would therefore generate a significant outflow in this quarter.
- The table opposite demonstrates the cash requirement in the business from sources other than trading and has been presented to indicate a possible way in which the payment of the grant could be phased.
- This would indicate that the Trust would require circa £1 million at the beginning of the year, £600,000 of its grant at the beginning of Q2, with the final instalment coming at the end of September to fund operations to the end of the year. These indicative amounts are of course based on a year where the expected outturn is a significant deficit, so any attempts to phase the payment of the ESC grant should take account of the budget for 2010 *et seq* once they are finalised.

***Cash flows excluding ESC grant***

|   | <b>FY 2008A</b>    | <b>Q1 2009A</b>  | <b>Q2 2009A</b>  | <b>Q3 2009A</b> |
|---|--------------------|------------------|------------------|-----------------|
|   | <b>£</b>           | <b>£</b>         | <b>£</b>         | <b>£</b>        |
| (Decrease) / increase in cash for year / period as reported | (684,390)          | 1,088,144        | (297,521)        | 84,970          |
| Deduct States grant payments                                | (2,043,758)        | (2,017,522)      | (260,000)        | -               |
| <b>Cash flow requirement</b>                                | <b>(2,728,148)</b> | <b>(929,378)</b> | <b>(557,521)</b> | <b>84,971</b>   |

*Source: BDO analysis*

| Observation   | Issue   | Recommendation   |
|---|---|--|
| <p><b>Admissions revenue, the largest source of self generated income, has increased, however this has been achieved in the context of significant increases in marketing spend.</b></p>  | <ul style="list-style-type: none"> <li>■ Expenditure on marketing may be disproportionate to gains by way of additional income.</li> </ul>  | <ul style="list-style-type: none"> <li>■ Additional analysis of the effectiveness of marketing spend in relation to increased income, and in terms of maintenance of existing income levels to be performed before setting marketing budgets and making significant decisions.</li> </ul>  |
| <p><b>A reanalysis of the financial information demonstrates that Jersey Heritage sites operate at a significant trading loss each year. That loss is growing, which reduces the amount of grant monies available to fund Trust activities which do not generate (significant) revenues, such as Jersey Archive or the central costs of operating a business on this scale.</b></p> | <ul style="list-style-type: none"> <li>■ The current reporting format has not enabled a full understanding of the bottom line performance of the revenue generating activities, which is useful for decision making.</li> </ul>       | <ul style="list-style-type: none"> <li>■ The income and expenses associated with the revenue generating activities of the Trust should be presented in a different way to facilitate decision making, particularly during the budget setting process.</li> <li>■ An alternative format of reporting need not replace but can be used to supplement existing reporting formats if considered more appropriate.</li> </ul> |
| <p><b>Historical management accounts were not available on a monthly or quarterly basis because each time they were prepared the previous set was overwritten.</b></p>  | <ul style="list-style-type: none"> <li>■ Historical financial information is not available in an easily understandable format, although the information is available in a detailed format from the Sage accounting system.</li> </ul> | <ul style="list-style-type: none"> <li>■ Management accounts should be prepared regularly and retained electronically.</li> </ul>  |
| <p><b>Expenditure on capital items is not always treated as such in the accounting records.</b></p>   | <ul style="list-style-type: none"> <li>■ Operating performance may be misstated.</li> </ul>   | <ul style="list-style-type: none"> <li>■ Develop a formal policy in respect of capital expenditure and necessary accounting treatment, adopting a de-minimus if considered appropriate.</li> </ul>   |

## 7 Funds flow history

- We analyse ‘sources’ and ‘uses’ of funds (cash) below.

### Sources of funds

- The table opposite analyses the Trust’s incoming funds.

#### “Trading” funds

- Trading funds include admissions and sales of season tickets and corporate passes. Heritage Venues represents the hire of venues for weddings and other functions.
- Since 2006 trading income has seen growth of 33% (based on 9M 2009 figures), which includes a 14% increase in total admissions revenues. Heritage Lets represents a new income stream during the review period and is reviewed in further detail in Section 9.
- Non-trading funds are analysed in detail below. The majority of non-trading funds have been received from the States throughout the period. Since 2005, an average of 95% of total funding from the States was by way of grant, and 5% in the form of revenue for specific services, which includes the Historic Buildings Service, the operation of the Fort Regent Signal Station and records management services in respect of the historic child abuse enquiry.
- The majority of self-generated income is received in cash during the period in which it is recognised; hence the debtor movements and other cash flow adjustments are relatively small. In terms of admissions and other income streams such as sponsorship and memberships, the business is largely a cash business, i.e. it has a very small sales ledger element, which might otherwise delay the receipt of monies in some instances.

### Pro-forma funds flow – sources of cash

|   | FY 2006A     | FY 2007A     | FY 2008A     | 9M 2009A     |
|---|--------------|--------------|--------------|--------------|
|   | £000         | £000         | £000         | £000         |
| <b>Non-trading</b>                      |              |              |              |              |
| (see detail below)                      | <b>2,312</b> | <b>2,005</b> | <b>2,625</b> | <b>2,403</b> |
| <b>Trading</b>                          |              |              |              |              |
| Admissions                              | 823          | 933          | 997          | 939          |
| Season tickets                          | -            | -            | 52           | 65           |
| Heritage Venues                         | 85           | 90           | 98           | 89           |
| Heritage Lets                           | -            | 109          | 135          | 156          |
| Concession fees                         | 46           | 43           | 51           | 45           |
| Sponsorship income                      | 56           | 63           | 57           | 83           |
| Business associates                     | 31           | 27           | 38           | 34           |
| Fees and charges                        | 26           | 48           | 41           | 28           |
| Catering, retail and other              | 16           | 19           | 7            | 37           |
| Bank interest                           | 41           | 36           | 19           | 1            |
| <b>Total trading income</b>             | <b>1,124</b> | <b>1,368</b> | <b>1,495</b> | <b>1,477</b> |
| Movements in debtors                    | (7)          | 30           | (79)         | 52           |
| Other adjustments to reflect cash flows | 40           | 10           | (21)         | 37           |
| <b>Total trading funds</b>              | <b>1,157</b> | <b>1,408</b> | <b>1,395</b> | <b>1,566</b> |
| <b>Total inward funds</b>               | <b>3,469</b> | <b>3,413</b> | <b>4,020</b> | <b>3,969</b> |

Source: Schedules prepared by management

*“Non-trading” funds*

- The figures opposite demonstrate that access to capital funding has all but dried up in recent years, since the effective closure of the Tourism Development Fund, which last provided funds in 2006 to Jersey Heritage and its partners in the Forts and Towers project.
- We understand that there are currently no prospects for funding any significant development work or projects, except perhaps for the fiscal stimulus funding which was allocated by the States to address the economic downturn. Jersey Heritage has submitted a number of bids although these have not been successful to date.
- As a result, capital expenditure is funded from revenue sources, which includes the grant from ESC. Where any significant capital purchases have been made the Trust has had to find alternative sources of funding (such as the bank overdraft used in 2008 to fund the purchase of the Castle Ferries). As already noted this transaction is a significant factor in the Trust’s current financial position and is analysed in detail below.
- Smaller grants, to a maximum of £20,000 per annum per charity, are made by the Association of Jersey Charities. Jersey Heritage received two grants from the AJC to fund small capital purchases, totalling £20,000 in 2008 and 2009. We have been advised that it is highly unlikely that a grant will be available to the Trust from AJC in 2010.
- The second table opposite analyses the proportion of total inward resources between trading and non-trading income, and between States and non-States sources.

*Detailed analysis of “non-trading” funds*

|                                | FY 2006A     | FY 2007A     | FY 2008A     | 9M 2009A     |
|--------------------------------|--------------|--------------|--------------|--------------|
|                                | £000         | £000         | £000         | £000         |
| States Revenue grants          | 1,869        | 1,912        | 1,971        | 2,217        |
| States Capital grants          | 390          | -            | -            | 18           |
| Fees generated from the States | 53           | 78           | 155          | 149          |
| Non-States capital funding     | -            | -            | 2            | 19           |
| Other non-States (Royal Yacht) | -            | 15           | -            | -            |
| Bank overdraft                 | -            | -            | 497          | -            |
| <b>Total non-trading funds</b> | <b>2,312</b> | <b>2,005</b> | <b>2,625</b> | <b>2,403</b> |

*Source: Schedules prepared by management*

*Pro-forma funds flow – sources of cash (KPIs)*

|                    | FY 2006A | FY 2007A | FY 2008A | 9M 2009A |
|--------------------|----------|----------|----------|----------|
|                    | %        | %        | %        | %        |
| Non-trading        | 67%      | 59%      | 64%      | 62%      |
| Trading            | 33%      | 41%      | 36%      | 38%      |
|                    | 100%     | 100%     | 100%     | 100%     |
| States funding     | 67%      | 58%      | 51%      | 62%      |
| Non-States funding | 33%      | 42%      | 49%      | 38%      |
|                    | 100%     | 100%     | 100%     | 100%     |

*Source: Schedules prepared by management and BDO analysis*



### Uses of funds

- The table opposite analyses the main uses of the cash by the Trust, to include both capital and revenue spend.
- Capital spend (balance sheet) represents those assets that have been acquired and capitalised as fixed assets by the Trust, as they provide an ongoing benefit to the Trust.
- The most significant capital purchase in the review period was in respect of the castle ferries, and we discuss this in further detail below.
- Management have advised us that the grant from AJC in 2009 was in respect of the archive scanner, which is now in use at the Jersey Archive.
- Capital spend (expensed) represents that element of spend that has been written-off in the period in which it has been incurred, given it is repair / replacement spend, or otherwise does not meet fixed asset recognition criteria.
- Non-recurring spend primarily comprises a payment of £122,000 to the new operator as part of the overall agreement to acquire the Castle Ferry service, and is discussed further below.
- Cash used in operating activities is analysed on the following page, each element being discussed in detail elsewhere in this Report.

### Pro forma funds flow – uses of cash

|   | FY 2006A     | FY 2007A     | FY 2008A     | 9M 2009A     |
|---|--------------|--------------|--------------|--------------|
|   | £000         | £000         | £000         | £000         |
| <b>Capital spend (balance sheet)</b>            |              |              |              |              |
| Castle ferry                                    | -            | -            | 411          | -            |
| Archive scanner                                 | -            | -            | -            | 37           |
| Membership database                             | -            | -            | -            | 18           |
| IT equipment                                    | 10           | -            | 27           | 3            |
| Telephone system                                | -            | 10           | 10           | 1            |
| EPOS equipment                                  | 7            | -            | 9            | -            |
| Motor vehicles                                  | 10           | -            | 8            | 7            |
|   | <u>28</u>    | <u>10</u>    | <u>465</u>   | <u>65</u>    |
| <b>Capital spend (expensed)</b>                 |              |              |              |              |
| Castle ferry kiosk                              | -            | -            | 20           | -            |
| Maritime Museum air conditioning                | -            | -            | -            | 30           |
| Other fixtures and fittings                     | 10           | -            | 8            | -            |
| Motor vehicles                                  | 2            | -            | 7            | -            |
| Pier Road wall                                  | -            | 11           | -            | -            |
| Windows   | -            | -            | 12           | -            |
|   | <u>12</u>    | <u>11</u>    | <u>47</u>    | <u>30</u>    |
| <b>Other non-recurring spend</b>                |              |              |              |              |
| Contract breakage costs                         | -            | -            | 122          | -            |
| Investment in retail and café units             | -            | -            | 33           | 28           |
|   | <u>-</u>     | <u>-</u>     | <u>155</u>   | <u>28</u>    |
| Cash used in operating activities (table below) | 4,523        | 3,493        | 4,037        | 2,971        |
| <b>Total uses</b>                               | <b>4,563</b> | <b>3,514</b> | <b>4,704</b> | <b>3,094</b> |

Source: Schedules prepared by management and BDO analysis

- Cash used in operating activities is analysed in further detail in the table opposite, which analyses the major components of expense within the Unrestricted Fund and, in total, of the other Funds, (which include special projects, such as the development of the Forts and Towers (included within the £804k spend through the Designated Fund in 2006) and the restoration of Mont Orgueil, (which gave rise to a significant part of the £1,095k of spend through the Heritage Fund in 2006)).

### Financing of the annual funding shortfall

- Bringing together the sources and uses of cash is necessary to determine how the Trust has funded itself since 2006. It is clear from the reported cash flows, summarised in the second table opposite, that there was a net outflow in each year (with the exception of the first nine months of 2009, which still records a positive result as the Q4 net outflow is not yet reflected).
- In 2006 the Trust spent circa £1.1m more than it was able to collect from its various sources (trading and non-trading sources). This overspend was funded by existing cash held in the bank at the beginning of that year and arose as a result of a timing difference between receiving TDF money for the restoration of Mont Orgueil and actually expending it.
- The 2007 shortfall was circa £100,000, again covered by brought forward cash funds (albeit, this included cash held for certain of the other Funds; this matter is discussed elsewhere in this Report).
- In 2008 the Trust obtained an overdraft to enable it to trade through to the end of the year. Together with the remaining cash reserves that were brought forward at 1 January 2008 (which included cash that should have been ring-fenced for, amongst other things, the SFCC, the AMF and the F&T Fund), it was able to meet its payment obligations until, in mid-January 2009, the annual ESC grant was again received.

### Analysis of cash used in operating activities

|  | FY 2006A     | FY 2007A     | FY 2008A     | 9M 2009A     |
|--|--------------|--------------|--------------|--------------|
|  | £000         | £000         | £000         | £000         |
| Staff costs                                    | 1,929        | 2,046        | 2,257        | 1,749        |
| Marketing costs                                | 102          | 93           | 120          | 181          |
| Rent   | 66           | 68           | 71           | 58           |
| Insurance and rates                            | 62           | 61           | 69           | 75           |
| Other expenditure                              | 640          | 956          | 1,293        | 842          |
| <b>Total expenses – Unrestricted Fund</b>      | <b>2,799</b> | <b>3,224</b> | <b>3,810</b> | <b>2,905</b> |
| Total expenses – Designated Fund               | 41           | -            | 1            | 1            |
| Total expenses – Restricted Fund               | 804          | 168          | 100          | 122          |
| Total expenses – Heritage Fund                 | 1,095        | 244          | 263          | 14           |
| Other adjustments                              | (216)        | (143)        | (137)        | (71)         |
| <b>Total cash used in operating activities</b> | <b>4,523</b> | <b>3,493</b> | <b>4,037</b> | <b>2,971</b> |

Source: BDO analysis

### Funding of shortfall

|                              | FY 2006A       | FY 2007A     | FY 2008A     | 9M 2009A   |
|------------------------------|----------------|--------------|--------------|------------|
|                              | £000           | £000         | £000         | £000       |
| Total cash inflows           | 3,469          | 3,413        | 4,020        | 3,969      |
| Total cash uses              | (4,563)        | (3,514)      | (4,704)      | (3,094)    |
| <b>(Shortfall) / surplus</b> | <b>(1,094)</b> | <b>(101)</b> | <b>(684)</b> | <b>875</b> |
| Funded by:                   |                |              |              |            |
| Cash balance b/forward       | 1,281          | 186          | 83           |            |
| Overdraft utilised in year   | -              | -            | 601          |            |
| Cash balance c/forward       | (186)          | (83)         | -            |            |
|                              | <b>1,095</b>   | <b>103</b>   | <b>684</b>   |            |

Source: BDO analysis

### Castle ferry acquisition

- The table opposite sets out the cash cost in 2008 associated with acquiring the Elizabeth Castle ferry operation. As well as the acquisition of the two amphibious vessels, Jersey Heritage made a goodwill payment to the operator which was essentially a contract breakage payment given that at the time of the agreement only one of the contracted five seasons had passed.
- As part of the arrangement, the new operator received payment for the service provided during 2007, albeit this was not the whole amount previously contracted given that a full service had not been provided by them. This service fee paid was in addition to the funds paid on the acquisition, which totalled £502k.
- It is not appropriate for us to make detailed comment on the way in which the final agreed price was negotiated between the parties and it is outside of the scope of this review in any case<sup>11</sup>, however, we are able to explain the components of the acquisition cost.
- As the table shows, the vessels themselves were acquired for a total consideration equivalent to the original purchase cost to the operator, including the import duties and delivery costs, together with an amount equal to the interest paid to their lenders whilst the vessels were under construction. In addition to the acquisition cost of £361,000, additional costs were payable directly by Jersey Heritage in order to bring the assets into service totalling circa £50,000. The total of cost of £411,000 (being the payment of £361,000 plus the additional costs of £50,000) was capitalised and is being depreciated over a 10-year period.

### Castle Ferries – cost of acquisition in 2008

|  | £              |
|--|----------------|
| <b>Paid to the new operator</b>  |                |
| Amphibious vehicles  | 272,275        |
| Import duties  | 41,920         |
| Delivery to Jersey   | 13,145         |
| Interest payable during construction   | 33,334         |
|  | 360,674        |
| <b>Kiosk:</b>  |                |
| Purchase and build   | 13,088         |
| Interior and fixtures, fittings  | 1,403          |
| Sea safety equipment etc   | 5,632          |
|  | 20,123         |
| Contract breakage/goodwill payment   | 121,777        |
|  | <b>502,574</b> |
| <b>Related costs payable directly by Jersey Heritage:</b>  |                |
| Registration and licensing   | 7,637          |
| Work undertaken on the amphibious vehicles   | 39,221         |
| Other costs  | 2,992          |
|  | 49,850         |
| <b>Total cost of acquiring the Castle Ferry amphibious vehicle service from the new operator</b> | <b>552,424</b> |

*Source: Schedules prepared by management and BDO analysis*

<sup>11</sup> We note the existence of a report titled “*Amphibious Vessels: Purchase for use on the West Park to Elizabeth Castle route – Briefing Report*” dated 8 July 2008, which provides further background to the acquisition of this service

- Through the terms of the agreement with Jersey Heritage, it seems that the operator recovered their entire investment in the ferry operation, with the exception only of the running costs during the ferries' operation during 2007, when they exited the business. As a temporary measure, the operator had also acquired a second-hand vessel for circa £80,000 to ensure access to Elizabeth Castle during 2007. This vessel did not form part of the transaction, and we understand that boat was later sold independently of the transaction with Jersey Heritage.
- All things considered, we consider that this transaction would have represented a very positive outcome for the vendor following what was, essentially, a failed business start-up, particularly given the service issues that the Trust had experienced. We understand that a number of the problems experienced were outside of the direct control of the operator and rested with, for example, the ferry manufacturer. However, to have recovered all capital costs, including the interest incurred on borrowings during the original construction period, seems generous on the part of the Trust.
- We have reviewed minutes of Trustee meetings from 16 February 2005 onwards as part of this review. The issue of transport to Elizabeth Castle was discussed at most meetings from 27 July 2006. However, it is perhaps surprising that an extraordinary Trustee meeting was not held to formally approve the transaction and the contract, and those discussions formally documented. Whilst a Trustee sub-group had been formed to conduct the negotiations, and the matter would inevitably have been discussed at the informal breakfast briefings, we would suggest that detailed documentation of the Trustee deliberations and their conclusions would have been preferable for a decision which had such significant financial impacts.
- Minutes of discussions prior to the finalisation of the contract did not fully demonstrate the consideration and discussion of possible alternatives that we know were considered at the time. We are aware that various alternative transaction structures and financing options were considered, including the use of a finance lease, for which terms were offered by a local leasing company.
- It was not clear from the minutes how Jersey Heritage intended to repay the overdraft which was ultimately used to finance the acquisition, although we understand from management that a finance lease was the most likely longer-term strategy. However, we have not seen any detailed financial projections underlying a strategy for repayment of either an overdraft or finance lease, over a structured term.
- As time passed, the finance lease that Jersey Heritage had been offered was withdrawn. This appears to have left the Trust with no alternatives, and resulted in an effective instant depletion of its 2009 grant by around £600k, being the amount by which the Trust was overdrawn as at 31 December 2008 and which was repaid on receipt of the 2009 grant from ESC.
- This acquisition was therefore a major contributor to the complete exhaustion of the Trust's cash balances by October 2009, and has resulted in additional ESC 'bail-out' grant payments being required between October and December 2009, which have been necessary to enable the Trust to continue operating.
- Payments made by Jersey Heritage in respect of the ticket kiosk at West Park were also equal to the amount originally spent by the operator, although these were not capitalised by Jersey Heritage. The full expense of purchasing the kiosk, of circa £20,000, passed through the Statement of Financial Activities in 2008, and thus contributed to that year's reported deficit.

### *Operating costs*

- Not presented in the table (but shown in the trading results for Elizabeth Castle in Section 9), are the costs to Jersey Heritage of operating the ferry service from 2008 onwards.
- Taking the transport service in-house required changes to the staffing model for the Elizabeth Castle site, to include not only drivers and crew but an additional Visitor Services Assistant to staff the kiosk at West Park.
- Additional staff costs in 2008 were circa £70,000. One-off training expenses cost a further £12,000.
- However, despite this increase in the cost base arising from the changes in site staffing, the costs of maintaining the vessels in a fit-for-purpose state have far exceeded the costs of people.
- In 2008, a total of £95,000 was spent on vehicle modifications and maintenance for the two ferries. In Q3 2009, this had risen to £138,000. The total additional spend in 2008 and in the period to 30 September 2009 was therefore £233,000, which is very high as compared to the original cost of manufacture of £272,000.
- The high levels of modification and maintenance costs suggest that the ferries are not fit for purpose (or at least not in their original specification) and that the useful economic life of the ferries may not be as long as the estimated 10-years and we would recommend that this is reviewed and the depreciation charge adjusted accordingly if appropriate.
- In acquiring these particular vehicles, Jersey Heritage put itself in the position of taking financial responsibility for another party's decision on the appropriate type of vessel. This was, of course, done in the interests of maintaining access to Elizabeth Castle, as the Trust is mandated to do so under the usufruct.
- It is management's view that the major modifications have now been completed and that the ferries are now appropriately equipped for the task. The significant modification and maintenance costs are therefore forecast to decline, however, any issues that may arise in the future remain, to some extent, an unknown quantity because of the specialist nature of the vehicles, which the Trust does not have past experience of operating.
- The current budget for 2010 provides an amount of £50,500 in respect of maintenance, modifications and technical expertise, which is less than a third of the actual expense incurred in 2009 but still represents a significant budgeted cost to the Trust.

| Observation   | Issue  | Recommendation  |
|---|--|---|
| <p><b>The cash reserves of the Trust have been entirely exhausted.</b></p>  | <ul style="list-style-type: none"> <li>The Trust's financial position can be best described as 'fragile', and with no cash reserves to fall back on it seems inevitable that additional grant monies will be required from the States in 2010 (and possibly 2011) to enable the Trust to effect a restructure and / or continue trading in its current form.</li> </ul>                                    | <ul style="list-style-type: none"> <li>The timing of the restructure decision is critical to enabling a robust cash flow forecast for 2010 to be prepared, and we recommend that the timing of this decision be determined at the very earliest opportunity (if it requires a proposition to be taken to the States Chamber).</li> <li>We consider it inevitable that, without any retained cash reserves, the Trust will seek additional funding from the States in 2010. This funding will either be (i) to enable it to continue to operate its current operations, after any savings have been found; or (ii) to provide a bridge whilst a restructure is undertaken with a view to enabling the Trust to 'live within its means' going forward.</li> <li>We therefore recommend that ESC / the States make some early provision for additional grant funding in 2010.</li> </ul> |
| <p><b>No funds exist within the Trust to enable capital projects to be undertaken, or for extensive repair and maintenance projects to be undertaken as and if they become necessary.</b></p>   | <ul style="list-style-type: none"> <li>Even assuming no new activities are undertaken by the Trust, the Trust would appear unable to cope with any un-foreseen spend, for example should more significant or urgent maintenance be required at any of its sites.</li> </ul>  | <ul style="list-style-type: none"> <li>ESC / the States should determine a strategy should such an event arise (i.e. unavoidable / urgent repair or maintenance spend).</li> <li>The overall strategy / solution being developed between the Trust and ESC as regards the future activities of Jersey Heritage needs to take account of inevitable future capital spend, including the more extensive repair and maintenance activities that will inevitably be required at certain sites.</li> <li>Jersey Heritage should be requested to provide a detailed capital budget (to include anticipated repair and maintenance), and this should be presented as part of the trading projections, to determine the true extent of any future funding deficit.</li> </ul>   |
| <p><b>The acquisition of the Elizabeth Castle amphibious vehicle service provides a number of learning opportunities.</b></p> <p><b>Contract terms appear, on the face of it, to have advantaged the counterparty.</b></p> <p><b>The financing of the acquisition appears inappropriate, in that it was effectively acquired using the 2009 grant from ESC.</b></p> | <ul style="list-style-type: none"> <li>Understanding the rationale behind the agreed terms is difficult as the decision was not documented in the level of detail that we might ordinarily expect for a transaction of this [relative] size.</li> <li>Costs of operating these vessels appear very high, and the expected useful economic life of the vessels appears to require re-assessment.</li> </ul> | <ul style="list-style-type: none"> <li>Significant decisions such as this require detailed documentation of the decision making process.</li> <li>Capital acquisitions need to be determined based on realistic funding sources; in effect, the Trust was unable to afford to make this acquisition but did so out of revenue grant funding which has caused a significant funding issue in the 2009 financial year (whilst we recognise the Trust's dilemma and need to maintain access to the Castle, as we comment elsewhere the terms seemed generous in the circumstances).</li> <li>Under the SLA with ESC, we recommend going forward that all major capital acquisitions be approved by ESC prior to being transacted.</li> </ul>   |

## 8 Trust assets and liabilities

### Balance sheet analysis by Fund

- The presentation of the balance sheet in the financial statements is effectively a number of individual balance sheets, representing each type of Fund held by the Trust and is typical of reporting by non-profit organisations. This requirement inevitably makes the audited financial statements more complex, and it can be difficult to understand and interpret without detailed review.
- The notes to the annual financial statements provide detailed analysis of each Fund and the related movements; however, this format of reporting (as required by the SORP) is unlikely to have assisted the Trustees' understanding of the financial position of the Trust. The time at which the Board are presented with the annual accounts will also limit the usefulness of the information (given it is historic by then) to Trustees.
- The objective of presenting an analysis of the different types of Funds is to show the resources that are freely available and those which should be used for specific purposes.
- Jersey Heritage operates four funds; the Unrestricted Fund, the Designated Fund, the Restricted Fund and the Heritage Fund.

### Cash balances

- As explained within our observations on cash flows, whilst Jersey Heritage has identified these 4 different types of Funds and reports at that level, it has not isolated the cash assets related to the Funds by using specific ring-fenced bank accounts.

- This has had positive consequences for the Trust in terms of its operating cash flows, which primarily relate to the Unrestricted Fund. For example, the AMF, which was built up from admissions revenues and intended to be spent on maintaining the castle buildings and the F&T Fund have, in effect, been funding normal working capital of the Trust and were not backed by separate cash reserves at the time we undertook our review. This practice has undoubtedly helped to defer the liquidity crisis until Q4 2009.
- Whilst we understand the Minister for ESC is aware of the use of the AMF cash for other purposes, and his permission was sought to spend the funds, the same situation has also occurred in respect of a bequest to the Trust and other funds and the issue is more extensive than ESC may have been aware at the time.
- The Sir Francis Cook bequest included the property at Augres, together with an amount of cash intended to fund maintenance costs of the building and public access. As with the AMF, the cash element of this bequest has not been isolated in a separate bank account during the period under review. As at 31 December 2008 the amount of cash that should have been backing this fund was £139,000.
- The gift requires that “...following the transfer of title any money accruing to The Jersey Heritage Trust ..... shall be used by The Jersey Heritage Trust solely for the upkeep, maintenance and any other incidental expenses relating to the property and the Works of Art or other purposes associated directly with the Sir Francis Cook Gallery.” This includes the rental income derived from leases on the residential parts of the property.

- We would recommend that the cash balance is reinstated as soon as possible and isolated in a specific bank account used only for the permitted purpose. We understand that this process of reinstatement has already begun, with specific provision being made to reserve amounts from the additional ESC “bail-out” grant payments in December 2009.
- As can be seen from the analysis of cash balances by Fund opposite, the Unrestricted Fund has been overdrawn throughout the period, other than at the end of Q1 2009, which shows a positive balance of £265,000. The Q1 position is positive as a result of the timing of receipt of the ESC grant, which is typically received in January of each year.
- To the extent that there is an overdrawn position on the cash balance for the Unrestricted Fund, the cash outflow representing that amount has been funded, during the period, by either the specific purpose funds, or in the case of the 31 December 2008 year end, an actual overdraft facility with the bank.

### Position at 31 December 2008

- Jersey Heritage’s overdraft has been widely discussed and reported on in the media. During the early stages of our work it became apparent that interested parties did not have a clear understanding of the overdraft, and the extent to which the Trust had borrowings or access to borrowings to see it through to the end of 2009.
- Whilst ESC quickly understood in October that Jersey Heritage had an urgent requirement for cash but no access to it, it is concerning that communications were somehow lacking about the Trust’s access to funding outside of ESC.

### Analysis of cash balances

|                             | 31<br>December<br>2007<br>£ | 31<br>December<br>2008<br>£ | 31<br>March<br>2009<br>£ | 30<br>June<br>2009<br>£ | 30<br>September<br>2009<br>£ |
|-----------------------------|-----------------------------|-----------------------------|--------------------------|-------------------------|------------------------------|
| <b>By fund</b>              |                             |                             |                          |                         |                              |
| Unrestricted                | (71,192)                    | (939,325)                   | 265,410                  | (199,204)               | (149,663)                    |
| Designated                  | 30,375                      | 28,685                      | 28,069                   | 27,541                  | 27,541                       |
| Restricted                  | (16,071)                    | 164,758                     | 44,505                   | 208,908                 | 233,937                      |
| Heritage                    | 140,260                     | 144,807                     | 149,143                  | 152,360                 | 162,760                      |
|                             | <b>83,372</b>               | <b>(601,075)</b>            | <b>487,127</b>           | <b>189,605</b>          | <b>274,575</b>               |
| <b>By account</b>           |                             |                             |                          |                         |                              |
| Interest bearing            | 65,753                      | -                           | 59,050                   | 93,704                  | 292,218                      |
| Current                     | (41,657)                    | (612,990)                   | (66,935)                 | (67,402)                | (75,965)                     |
| Total current <sup>12</sup> | 24,096                      | (612,990)                   | (7,885)                  | 26,302                  | 216,253                      |
| Till floats                 | 4,800                       | 4,800                       | 12,200                   | 19,208                  | 13,622                       |
| Bank 2                      | 12,802                      | 6,860                       | 20,290                   | 142,183                 | 43,825                       |
| 7 day fixed                 | 40,990                      | -                           | 461,809                  | -                       | -                            |
| Euro                        | 129                         | 4                           | 314                      | 1,529                   | 712                          |
| Petty cash                  | 555                         | 251                         | 399                      | 383                     | 164                          |
|                             | <b>83,372</b>               | <b>(601,075)</b>            | <b>487,127</b>           | <b>189,605</b>          | <b>274,575</b>               |

Source: Management accounts and BDO analysis

<sup>12</sup> The sub-total included and described as “current” shows the effective balance on the Trust’s current accounts. The negative balances shown against “Total current” do not represent genuine overdrafts at the bank but overdrawn positions created via accounting transactions, such as recording cheque payments as soon as the cheque is written. This situation occurs frequently because the trust utilises a sweeping mechanism between the business current account which is not interest bearing and an instant access interest bearing account. In the current interest rate climate the process is clearly not yielding any financial benefit to the trust, however, we endorse the use of such a procedure in order to maximise the return on funds held.



- The evident lack of clarity has contributed to the late timing of corrective action and, as a result, may have limited the possibilities for preventative action. We consider the need for improved reporting and communications elsewhere in this Report.
- Taking these issues into account, it is helpful to explain in further detail the unrestricted fund overdraft of £939,000 (shown in the table opposite) at 31 December 2008.
- As the analysis of the position sets out, the overdrawn balance at the bank was £497,000 as at the year end. The main driver for this position was the acquisition of the castle which resulted in a cash outflow of circa £532,000.
- The maximum overdrawn position reached was £520,000 on 9 January 2009. When the ESC grant was received on 12 January 2009, the overdraft was cleared and the account did not go overdrawn again after that date.
- All but £11,915 of the cash balances related to specific Funds had been spent as at 31 December 2008. In order to replace the deficit at that date, additional cash of £326,335 is required. Given the current financial position of the Trust it will not, at least in the short to medium term, be possible to build up surplus cash to replace the depleted reserves without additional cash injection (which has now occurred in Q4 2009).

#### Bank overdraft - terms and costs

- The unsecured overdraft facility was offered to the Trust on 4 November 2008 with a limit of £510,000 (subsequently increased to £600,000).

#### Analysis of unrestricted fund overdraft at 31 December 2008

|  | <b>31 December<br/>2008</b> |
|--|-----------------------------|
| Overdrawn balance per bank account                               | (496,890)                   |
| Cheques written not cleared (net of inward payments not cleared) | (116,100)                   |
| Overdraft balance  | <u>(612,990)</u>            |
| <i>Funds spent previously on normal operating activities</i>     |                             |
| Designated fund  | (28,685)                    |
| Restricted fund  | (152,843)                   |
| Heritage fund  | (144,807)                   |
|  | <u>(326,335)</u>            |
| <b>Unrestricted Fund overdraft balance at 31 December 2008</b>   | <b>(939,325)</b>            |

*Source: Schedules prepared by management and BDO analysis*

- An arrangement fee of £1,500 was paid and interest was charged at 2.25% over the bank's base rate. As at the date of the agreement the rate applicable to the overdraft was 6.75% (2.25% over the bank's base rate at the time). Thereafter a fall in Bank of England base rate was favourable to the Trust. The account was overdrawn for a limited period of time and we estimate the total interest cost was below £4,000.
- The overdraft facility expired on 15 January 2009, although the facility may have been considered by the bank to run for a maximum of one year. If the term negotiated had been 12 months then the facility would have expired at the beginning of November 2009, around the time of Jersey Heritage's most serious liquidity issue.

### Other observations

- The cash outflows in relation to the acquisition of the castle ferries, including contract breakage costs paid in 2008 but excluding running costs totalled £532,000 and hence fully account for the maximum overdraft position of £520,000 in early January 2009. We therefore consider that Jersey Heritage may have been able to meet its liabilities as they fell due throughout 2008 and early into 2009 without an overdraft, if the purchase of the castle ferries had not taken place or had it been funded in a different way.
- We also note that the overdraft position at the 2008 year-end may have been distorted by cheques written but not presented. As a result of the monthly accounts payable cycle, some cheques were written before 31 December but not mailed out to suppliers until after the year end date.
- A strict application of accounting practice would mean that these cheques should not have been taken account of in the year end figures, which would have reduced the overdraft shown but increased the Trust's liabilities to trade creditors. This is illustrated by the maximum overdrawn balance at the bank on 9 January 2009 of £520,000 which is closer to the true overdraft position (after utilising all cash available including restricted funds), compared to the £613,000 shown in the accounting records. A typical period for the clearing of a cheque is perhaps 5-6 working days around the holiday period, and the actual cash inflows to the bank account in the first couple of weeks of January are minimal.

## Tangible fixed assets

### Property

- Property comprises freehold and leasehold property in Jersey.
- As discussed previously, each of the sites run by Jersey Heritage is operated under specific arrangements with other parties, such as Societe Jersiaise and the States of Jersey. As a result only certain properties are recognised as assets on the balance sheet.
- The Sir Francis Cook Gallery, together with the residential units and collections store on the site, is held as freehold property. Other than the terms of the bequest, there are no other agreements or undertakings affecting the property.
- The Jersey Museum is also included within property; however, the Societe Jersiaise retains a reversionary interest in the buildings, which would take effect in the event that a museum ceased to operate there.
- These buildings are not subject to an annual depreciation charge in accordance with UK GAAP.
- Also on balance sheet within property assets is the Jersey Archive building, as a leasehold property, despite the fact that no formal arrangements have yet been entered into with the States of Jersey. The intended lease was for a term of 99 years. No rent is paid on the property. We would recommend that the accounting treatment be revisited in light of the failure to agree formal terms with the States after many years occupation.
- The other operated sites do not represent assets of the Trust under accounting definitions and a large number are operated solely under management agreements or similar.

## Balance sheets

|                            | FY 2007A           | FY 2008A           | Q1 2009A           | Q2 2009A           | Q3 2009A           |
|----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                            | £                  | £                  | £                  | £                  | £                  |
| <b>Fixed assets</b>        |                    |                    |                    |                    |                    |
| Property                   | 9,324,202          | 9,272,849          | 9,260,011          | 9,247,172          | 9,234,334          |
| Other assets               | 154,549            | 485,753            | 473,385            | 451,227            | 511,199            |
|                            | <u>9,478,751</u>   | <u>9,758,602</u>   | <u>9,733,396</u>   | <u>9,698,399</u>   | <u>9,745,533</u>   |
| <b>Current assets</b>      |                    |                    |                    |                    |                    |
| Stock                      | 18,618             | 20,207             | 20,207             | 20,207             | 20,207             |
| Debtors                    | 30,308             | 91,823             | 17,082             | 188,287            | 61,186             |
| Prepayments                | 3,201              | 20,981             | -                  | -                  | -                  |
| Cash                       | 125,029            | 11,972             | 554,061            | 257,007            | 350,541            |
|                            | <u>177,156</u>     | <u>144,983</u>     | <u>591,350</u>     | <u>465,501</u>     | <u>431,934</u>     |
| <b>Current liabilities</b> |                    |                    |                    |                    |                    |
| Overdraft                  | (41,657)           | (612,990)          | (66,935)           | (67,402)           | (75,965)           |
| Loans payable              | (27,500)           | (27,500)           | (27,500)           | (27,500)           | (27,500)           |
| Creditors and accruals     | (136,116)          | (211,998)          | (44,361)           | (54,378)           | (194,621)          |
| Deposits                   | (24,089)           | (35,521)           | (3,520)            | (7,833)            | (17,768)           |
|                            | <u>(229,362)</u>   | <u>(888,009)</u>   | <u>(142,316)</u>   | <u>(157,113)</u>   | <u>(315,854)</u>   |
| <b>Other liabilities</b>   |                    |                    |                    |                    |                    |
| Loan (States)              | (302,500)          | (275,000)          | (275,000)          | (247,500)          | (247,500)          |
| Pension                    | (1,586,292)        | (1,704,000)        | (1,704,000)        | (1,704,000)        | (1,704,000)        |
|                            | <u>(1,888,792)</u> | <u>(1,979,000)</u> | <u>(1,979,000)</u> | <u>(1,951,500)</u> | <u>(1,951,500)</u> |
| <b>Net assets</b>          | <b>7,537,753</b>   | <b>7,036,571</b>   | <b>8,203,430</b>   | <b>8,055,287</b>   | <b>7,910,113</b>   |
|                            |                    |                    |                    |                    |                    |
| Income (deficit) / funds   | (106,006)          | (585,189)          | 692,208            | 379,797            | 235,137            |
| Heritage funds             | 7,643,759          | 7,621,765          | 7,511,222          | 7,675,490          | 7,674,976          |
|                            | <u>7,537,753</u>   | <u>7,036,571</u>   | <u>8,203,430</u>   | <u>8,055,287</u>   | <u>7,910,113</u>   |

Source: Management accounts

### **Other fixed assets**

- The castle ferries represent two thirds of the other tangible fixed assets, at £339,000 of the total carrying value of £511,000 at 30 September 2009.
- Other assets in use in the business are computer equipment, the EPOS system and till points and motor vehicles, however no formal register of fixed assets is maintained.
- The castle ferries are currently depreciated over a 10-year useful economic life, giving rise to an annual depreciation charge of circa £40,000. However, both our analysis of the operating costs of the vessels, and discussions with management, have indicated that this may no longer be appropriate. Whilst a revision to the estimated useful economic life has no cash flow implications, any reduction will increase the annual depreciation charge and increase reported expenditure which is not desirable if the Trust is targeting a reported break-even or surplus each year. It also indicates the possibility of an accelerated capital replacement cycle in respect of the vessels.
- Internal fixtures and fittings at Jersey Archive are included in other assets and will be fully depreciated by 31 December 2009.
- As explained earlier in the Report, a number of purchases that may have been capital were expensed. These are individually noted in Section 6 as part of the exercise to normalise the performance of the Unrestricted Fund.
- We did not identify any indicators of impairment during the course of our review, excepting the possibility that the castle ferries may currently be overstated – the depreciation having been based on a longer useful economic life than is now considered feasible.
- There are no intangible assets.

### **Current assets**

#### **Stock**

- As the balance sheet summary demonstrates, stock takes and stock valuations and any resulting adjustments are only undertaken on an annual basis. The stock adjustment as at 30 September 2009 is likely to increase cost of sales and decrease the reported surplus for that period.
- As the Trust begins to operate all retail outlets itself, rather than on a concession basis for the 2010 season, adjustments to stock affecting cost of sales will be necessary in order to present an accurate picture of the gross profit generated in the management accounts on a monthly basis.
- Stock levels are expected to rise, which will place additional demands on the Trust's cash flow and will need to be managed carefully in order to deliver a better performing retail operation as is intended by the new strategy. The additional staffing is already in place to manage the increased workload.
- We understand that, currently, only publications sold at the sites are accounted for as stock and that site leaflets and other free guides or publicity material are expensed in full when the material is acquired.

### **Debtors**

- The information is not available to present quarterly balance sheets for 2008; however, the 2009 pattern shows that debtors reach their highest level at the end of Q2, although typically debtors remain at a low level because most sources of income are collected in cash at the same time as being recognised as a sale or income item.
- Jersey Heritage collects deposits from Forts and Towers holiday lets and Heritage Venues events, such as weddings. These are accounted for through debtor sub-accounts, but as liabilities in Sage and correctly adjusted to be reflected as liabilities in the year-end accounts.

### **Prepayments**

- Prepaid expenses, such as rent (on the Maritime Museum), rates and insurance premiums are not typically treated as prepayments and are therefore not released to expenses on a monthly basis over the period to which the payment relates.
- Under the current reporting processes, whereby management accounts are not circulated but used only as a review tool by the Finance Director, accounting for prepayments and making monthly adjustments is less important. However, as we recommend that monthly management accounts are prepared and circulated to the Director and Board of Trustees, this will require any prepaid expenses to be accounted for as such to reflect the true monthly performance and enable comparison to budget.

### **Current liabilities**

- In the balance sheets presented above we have shown positive cash balances separately to bank overdrafts, reflecting the fact that there is no right of set-off between the individual accounts (as analysed on page 80), which are held with various banks. This differs to the presentation adopted in the financial statements, where in the past positive and negative balances have been netted and presented accordingly.
- The overdraft position arises consistently, even where the overall position is positive, as a result of the Trust's cash management strategy which uses a variety of accounts, maintaining the current account balance at a minimal level at all times. When cheque runs are prepared this frequently causes an accounting overdraft although not necessarily an overdrawn balance at the bank because funds will be transferred from another account before the cheques clear.
- Trade creditors and accruals are typically highest at the year end, although were also substantial at 30 September 2009 as a result of the cash flow issues that had led to Jersey Heritage deferring payment of liabilities for as long as possible.
- The Trust does not typically make adjustments for deferred income but recognises any income that relates to future periods in full immediately on receipt or on invoicing. Typically income received in advance is membership donations from individuals or corporates. Short-term liabilities do not, therefore, typically include any deferred income.

### Long term liabilities

- Jersey Heritage has no “external” debt funding so no long term liabilities relating to bank loans or similar. However, it is currently liable to the States for a loan advanced to fund the construction of a storage facility on the Sir Francis Cook gallery site.
- This is repaid in instalments of £27,500 per annum, and there is still in excess of £200,000 to repay. The loan will be repaid in full by 2019.

### Pension liability

- The balance sheet also shows a significant liability to the States of Jersey Pension Fund (“PECRS”), in relation to the pre-1987 scheme debt. We understand that all States departments and non-States organisations which participated in the scheme were allocated a share of the deficit related to the pre-1987 scheme, when the overall PECRS scheme was restructured.
- We understand that the deficit allocated to Jersey Heritage was a proportion of the overall deficit but not necessarily related to the number of Trust employees (and their salaries) that were in the pre-1987 scheme. Payments of around £28,000 per annum (at the 2008 rate) are also made to the States in respect of this position, and monthly payments will continue until 2083.
- The repayment rate is subject to annual actuarial review in around March or April each year, and in light of current performance of the financial markets (and performance of defined benefit schemes in general) it is likely that this will increase.

### Unrestricted funds

- As explained earlier in the Report, Unrestricted Funds represent the day-to-day operations of the Trust.
- All of the property assets of the Trust are affected by special provisions or restrictions and as a result the Unrestricted Fund balance sheet includes only the other tangible fixed assets, most notably the Elizabeth Castle ferries, as well as IT equipment and motor vehicles.
- The cash and overdraft balance demonstrates how the Unrestricted cash reserves have been depleted, followed by use of Restricted cash balances to enable Jersey Heritage to continue to meet its liabilities as they fell due, up until the cash crisis in October 2009.
- The importance of the detailed balance sheets for each individual Fund can be seen from this and the following two pages of the Report. A user is properly able to assess the resources readily available to the Trust at a point in time if provided with an Unrestricted Fund balance sheet in isolation. Naturally this position is more fragile than the total balance sheet of the Trust, which is protected by cash and other assets which should not, however, be used in general pursuance of Jersey Heritage's aims.

### Unrestricted Fund balance sheets

|                                   | FY 2007A         | FY 2008A         | Q1 2009A       | Q2 2009A       | Q3 2009A       |
|-----------------------------------|------------------|------------------|----------------|----------------|----------------|
|                                   | £                | £                | £              | £              | £              |
| <b>Fixed assets</b>               |                  |                  |                |                |                |
| Other fixed assets                | 49,176           | 433,067          | 433,870        | 424,884        | 426,917        |
| <b>Current assets</b>             |                  |                  |                |                |                |
| Stock                             | 18,618           | 20,207           | 20,207         | 20,207         | 20,207         |
| Debtors                           | 30,308           | 26,823           | 17,082         | 188,287        | 61,186         |
| Prepayments                       | 3,201            | 21,036           | -              | -              | -              |
| Cash                              | -                | -                | 265,410        | -              | -              |
|                                   | 52,127           | 68,066           | 302,699        | 208,494        | 81,393         |
| <b>Current liabilities</b>        |                  |                  |                |                |                |
| Overdraft                         | (71,192)         | (939,325)        | -              | (199,204)      | (149,663)      |
| Creditors and accruals            | (136,116)        | (211,998)        | (44,361)       | (54,378)       | (194,621)      |
|                                   | (207,308)        | (1,151,323)      | (44,361)       | (253,582)      | (344,284)      |
| <b>Net (liabilities) / assets</b> | <b>(106,005)</b> | <b>(650,190)</b> | <b>692,208</b> | <b>379,796</b> | <b>164,026</b> |

Source: Management accounts

### Designated funds

- Designated funds relate solely to a joint fund with the Societe Jersiaise. Until 2006 the annual grant from Jersey Heritage to Societe was also recorded through the Designated Fund. Thereafter it was presented as an incoming and outgoing resource in the Unrestricted Fund.
- The Designated Fund balance sheet is represented solely by cash, however, based on the latest financial information, as at 30 September 2009, this cash had been utilised in the day-to-day running of the Trust.

### Restricted funds

- The restricted funds include the AMF, the F&T Fund, the revenues and related expenses for the Children's Home Enquiry records assignment at Jersey Archive, together with a number of other funds over the years that have particular restrictions affecting their use.
- The deposits balance represents booking deposits collected from Forts and Towers clients, and these are treated as liabilities and released to income at the appropriate time (i.e. when the relevant hire takes place). We note that the management accounts have continued to treat this as a restricted item, despite the fact that the trading income is now recognised in full within the Unrestricted Fund, with a transfer to restricted funds solely comprising the agreed percentage contribution to the maintenance fund.
- The cash assets are therefore primarily relating to the AMF and F&T Funds, as well as the Children's Home Enquiry. This balance sheet would rarely include debtors, although at 31 December 2008 the £65,000 debtor represents the agreed payment from the States Greffe for the Children's Home Enquiry records assignment.

### Designated Fund balance sheets

|                   | FY 2007A      | FY 2008A      | Q1 2009A      | Q2 2009A      | Q3 2009A      |
|-------------------|---------------|---------------|---------------|---------------|---------------|
|                   | £             | £             | £             | £             | £             |
| Cash              | 30,375        | 28,685        | 28,069        | 27,541        | 27,541        |
| <b>Net assets</b> | <b>30,375</b> | <b>28,685</b> | <b>28,069</b> | <b>27,541</b> | <b>27,541</b> |

Source: Management accounts

### Restricted Fund balance sheets

|                                  | FY 2007A        | FY 2008A       | Q1 2009A      | Q2 2009A       | Q3 2009A       |
|----------------------------------|-----------------|----------------|---------------|----------------|----------------|
|                                  | £               | £              | £             | £              | £              |
| Debtors                          | -               | 65,000         | -             | -              | -              |
| Cash                             | -               | 164,758        | 44,505        | 208,908        | 233,937        |
|                                  | -               | 229,758        | 44,505        | 208,908        | 233,937        |
| Overdraft                        | (16,071)        | -              | -             | -              | -              |
| Deposits                         | (24,089)        | (35,521)       | (3,520)       | (7,833)        | (17,768)       |
|                                  | (40,160)        | (35,521)       | (3,520)       | (7,833)        | (17,768)       |
| <b>Net (liabilities)/ assets</b> | <b>(40,160)</b> | <b>194,237</b> | <b>40,985</b> | <b>201,075</b> | <b>216,169</b> |

Source: Management accounts



### Heritage funds

- Heritage funds represent the main property assets of the Trust. As explained above, this includes the Jersey Museum, the Sir Francis Cook Gallery, and despite the absence of a lease agreement with the States, the Jersey Archive building. Only the Jersey Archive building is depreciated, over a term of 99-years, which is considered to be the expected life of the building.
- Other fixed assets relate to the fixtures and fittings at Jersey Archive, which will be fully depreciated by 31 December 2009.
- The Heritage Fund cash balance relates solely to the Sir Francis Cook bequest, which is discussed in detail earlier in this Section.
- The loan payable relates to the States of Jersey loan, also explained above.

### Heritage Fund balance sheets

|                              | <b>FY 2007A</b>  | <b>FY 2008A</b>  | <b>Q1 2009A</b>  | <b>Q2 2009A</b>  | <b>Q3 2009A</b>  |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
|                              | £                | £                | £                | £                | £                |
| Property                     | 9,324,202        | 9,272,849        | 9,260,011        | 9,247,172        | 9,234,334        |
| Other fixed assets           | 105,373          | 52,687           | 39,515           | 26,344           | 13,172           |
|                              | <b>9,429,575</b> | <b>9,325,536</b> | <b>9,299,526</b> | <b>9,273,516</b> | <b>9,247,506</b> |
| Cash                         | 140,260          | 144,807          | 149,143          | 152,360          | 162,760          |
|                              | <b>140,260</b>   | <b>144,807</b>   | <b>149,143</b>   | <b>152,360</b>   | <b>162,760</b>   |
| Loan payable within one year | (27,500)         | (27,500)         | (27,500)         | (27,500)         | (27,500)         |
| Loan payable after one year  | (302,500)        | (275,000)        | (275,000)        | (247,500)        | (247,500)        |
| Pension                      | (1,586,292)      | (1,704,000)      | (1,704,000)      | (1,704,000)      | (1,704,000)      |
| <b>Net assets</b>            | <b>7,653,543</b> | <b>7,463,843</b> | <b>7,442,169</b> | <b>7,446,876</b> | <b>7,431,266</b> |

*Source: Management accounts*

| Observation   | Issue  | Recommendation  |
|---|--|---|
| <p><b>Cash flows in 2008 and 2009 have been supported by monies held within a number of restricted funds. This has resulted in the full extent of the cash flow issues being suppressed for a period of time.</b></p> | <ul style="list-style-type: none"> <li>■ Whilst Jersey Heritage records and reports a number of distinct funds as part of its total balance sheet (as required by the SORP), the organisation does not isolate or ring fence any cash balances related to those funds.</li> <li>■ As a result, the real liquidity position of the organisation in relation to its operating activities (the unrestricted fund) is worse than the net position which is typically quoted in both internal communications and those with the Department for Education, Sport and Culture.</li> <li>■ This means that funds such as the AMF, the F&amp;T Fund and the Sir Francis Cook bequest (which was gifted to the trust part in physical property and part in cash) are not backed by cash should the need to utilise funds for that specific purpose.</li> </ul> | <ul style="list-style-type: none"> <li>■ Jersey Heritage should implement procedures and controls to isolate cash balances in distinct bank accounts where those cash balances relate to bequests, specific funds or similar.</li> <li>■ It should also implement procedures and controls to ensure that those funds are utilised only for what they were intended.</li> <li>■ Accounts (monthly management accounts as well as annual accounts) should clearly define the cash held by individual fund.</li> </ul> |
| <p><b>The Archive building has no formal lease attaching (we understand that the intended lease term is 99 years).</b></p>  | <ul style="list-style-type: none"> <li>■ There is inevitably some lack of clarity as to the roles and responsibilities of the Trust as regards the maintenance of the property, amongst other things.</li> <li>■ Capitalisation of fixed assets assumes a lease is in place.</li> </ul>  | <ul style="list-style-type: none"> <li>■ We recommend that a lease be obtained for the Archive site to clarify the respective obligations of the landlord and tenant.</li> </ul>  |
| <p><b>The amphibious castle ferry vessels may have a shorter useful economic life than was first anticipated.</b></p>   | <ul style="list-style-type: none"> <li>■ There has been considerable spend on modifications to make these vessels fit-for-purpose.</li> <li>■ Discussions with management have identified some concerns that the useful economic life of the vessels may be relatively short, with circa 5 years remaining.</li> </ul>   | <ul style="list-style-type: none"> <li>■ An assessment of the useful economic life of the vessels should be undertaken as a priority.</li> <li>■ This assessment will in-turn enable an understanding of the likely capital replacement cycle for the vessels, as well as any additional rectification or modification spend requirements during the remaining life of the assets.</li> </ul>   |

## 9 Trading activities

### Summary of trading activities

- The activities of the Trust can be divided into a number of profit or cost centres, most of which are represented by the individual sites which the Trust operates.
- The sites, together with associated activities such as memberships and sponsorship, have been classified as “trading” activities in this Report, given that these are income producing (although not necessarily net income generating on a contribution basis) and are, generally, self generated incomes.
- This analysis has been presented as a possible presentation of the financial reports and is not necessarily the only option. We have developed this format based on the historical information that was available to us. However when the Trust, in conjunction with ESC, consider the most appropriate method of management reporting going forward it will be possible to tailor the format to the requirements of the key stakeholder groups, and may conclude on a different approach or presentation.
- The review of each site’s individual trading position is presented in this Section, and provides a useful indication of the performance of each heritage site operated as a visitor attraction.
- The table opposite provides a summary of the trading activities of Jersey Heritage and the overall deficit from these activities, which the ESC grants are effectively funding on an annual basis.
- The table opposite does not include any allocation of central costs, such as human resource or finance department costs. These central administrative functions are deemed “non-trading” and they have been presented as separate cost centres later in the Report.

### *Pro-forma summary - net cost of trading activities*

|  | FY 2006A         | FY 2007A         | FY 2008A           | 9M 2009A         |
|--|------------------|------------------|--------------------|------------------|
|  | £                | £                | £                  | £                |
| <b>Net (cost of) / contribution from sites</b> | <b>(97,180)</b>  | <b>(127,860)</b> | <b>(335,917)</b>   | <b>16,061</b>    |
| <b>All sites income</b>                        |                  |                  |                    |                  |
| Forts and Towers                               | 29,565           | 96,634           | 124,440            | 143,283          |
| Heritage Venues (other)                        | 4,317            | 7,480            | 2,109              | 5,860            |
| Retail concessions                             | 3,712            | 10,204           | 16,043             | 17,939           |
| Other income                                   | 14,243           | 1,885            | 1,500              | 6,460            |
|  | 51,837           | 116,203          | 144,092            | 173,542          |
| <b>All sites expenses</b>                      |                  |                  |                    |                  |
| Staff costs                                    | (99,267)         | (144,934)        | (186,202)          | (142,098)        |
| Heritage Venues (other)                        | (4,222)          | (2,105)          | (437)              | (2,749)          |
| Heritage Lets (F&T)                            | (26,238)         | (69,936)         | (99,604)           | (96,152)         |
| Insurance and rates                            | (61,713)         | (60,857)         | (69,289)           | (75,468)         |
| Investment in site retail/café concessions     | -                | -                | (3,931)            | (10,293)         |
| Consultancy fees re: retail                    | -                | -                | (2,685)            | (10,000)         |
|  | (191,440)        | (277,832)        | (362,148)          | (336,760)        |
| <b>Total site deficit</b>                      | <b>(236,783)</b> | <b>(289,489)</b> | <b>(553,973)</b>   | <b>(147,157)</b> |
| Other trading income <sup>13</sup>             | 119,081          | 154,242          | 198,487            | 271,899          |
| Other trading expenses <sup>14</sup>           | (541,444)        | (492,492)        | (515,043)          | (483,721)        |
| <b>Normalised trading deficit</b>              | <b>(659,146)</b> | <b>(627,739)</b> | <b>(870,529)</b>   | <b>(358,979)</b> |
| Non-recurring expenses                         | -                | (10,855)         | (156,481)          | -                |
| <b>Total trading deficit</b>                   | <b>(659,146)</b> | <b>(638,594)</b> | <b>(1,027,010)</b> | <b>(358,979)</b> |

Source: BDO analysis

<sup>13</sup> See table on page 94 for detailed analysis of other trading income

<sup>14</sup> See table on page 94 for detailed analysis of other trading expenses

- As can be seen, operation of the sites has given rise to a net deficit each year since 2006, and although a net contribution is recorded for 9M 2009, this will reverse to a net deficit before the end of the year given that three of the six sites are closed to the public during November and December and are therefore producing no income, whilst costs remain at similar monthly expenditure levels.
- The performance of Heritage Venues is included within the pro-forma contribution summary for each site.
- The principal new income stream during the period under review is the Forts and Towers holiday lets business, together with the direct collection of castle ferry ticket sales from 2007.
- Despite this new source of income, through the Forts and Towers programme introduced in 2006, the total normalised deficit from trading activities continued to increase. This is not because the Forts and Towers scheme is a loss making business unit (in fact it makes a positive net contribution), but instead symptomatic of other changes, and in particular we consider that the Trust's cost base has increased at a quicker rate than revenue / contribution by individual site.

### *Marketing costs*

- Marketing costs have increased from around £100,000 in 2006 to £180,000 in 9M 2009 (and are included in other trading expenses, and shown in the table opposite). In absolute terms, this is an 80% increase before additional Q4 2009 marketing costs are included (although we note that the marketing spend for the last three months of the year is unlikely to be incurred at a similar monthly run-rate).
- As a proportion of total trading income, external marketing spend has risen from 9.5% of total trading income in 2006 to 11.9% in 9M 2009, an increase of 35.9% (excluding salary cost).

### *Marketing expenses – Unrestricted Fund*

|                                  | FY 2006A       | FY 2007A       | FY 2008A       | 9M 2009A       |
|----------------------------------|----------------|----------------|----------------|----------------|
|                                  | £              | £              | £              | £              |
| General marketing                | 65,651         | 60,299         | 79,326         | 75,067         |
| Events and exhibitions marketing | 22,835         | 30,717         | 19,405         | 41,181         |
| Flash-days marketing             | 13,461         | 2,233          | 10,758         | 4,261          |
| Heritage Lets marketing          | -              | -              | -              | 15,298         |
| Heritage Venues marketing        | -              | -              | 10,621         | 3,381          |
| Love Your Heritage Campaign      | -              | -              | -              | 41,646         |
|                                  | 101,947        | 93,249         | 120,110        | 180,834        |
| Staff costs                      | 109,885        | 67,772         | 68,863         | 61,476         |
| <b>Total marketing spend</b>     | <b>211,832</b> | <b>161,021</b> | <b>188,973</b> | <b>242,310</b> |

*Source: JHT management information and BDO analysis*

- We would expect that the external environment has made it more difficult to attract visitors over the period presented, as a result of declining tourist numbers, increased competition at other local visitor attractions and the lack of refreshment of displays and new exhibits. We also note that in 2009 around £41,000 of the total marketing spend of £180,000 related to the “Love Your Heritage” campaign, which was a distinct campaign to promote the various memberships together with sponsorship opportunities. We have been advised that the memberships sold as a result of this specific campaign are expected to generate future renewal income, with memberships forecast to renew on average for three years.
- We consider that the level of marketing spend vis-à-vis trading income is a key performance indicator, and should be considered by management and the board periodically, in order to facilitate

discussion around the effectiveness of marketing spend, which may also include consideration of whether specific elements of this particular function could be outsourced more efficiently than it can be managed as an in-house function.

- The possibility of outsourcing marketing and other functions was brought to our attention by ESC as one of the themes of the recent report of the Comptroller and Auditor General.
- It is worth noting that the proportion of trading income spent on marketing was relatively stable between 2006 and 2008 (and in fact fell in 2007 and 2008 from the 2006 level) and it is only in 9M 2009, which has been a very difficult trading year for the Trust, that the spend increased dramatically. If the proportion of total income spent on marketing had remained consistent with 2008 levels during 9M 2009, then the marketing spend would have been circa £60,000 lower.
- Notwithstanding these observations, we acknowledge that it is difficult to draw clear conclusions from the marketing spend and the impact it may have on income generated. Any reductions in marketing spend could have had an adverse impact on revenues.
- In a declining market, it seems reasonable that a business will have to spend proportionately more to maintain and/or grow revenues. However there needs to be a clear understanding of the financial costs and benefits of marketing spend.
- Whilst we understand that a variety of measures are adopted to quantify the effectiveness of Jersey Heritage's marketing and public relations activities, we would recommend that thought is given to including some additional KPIs in the quarterly activity and performance reports.
- Whilst website hits and visits in excess of a specified duration are reported on, there are no financial variables in relation to the marketing function reported to the Trustees on a regular basis. In

the absence of monthly management accounts, the Trustees do not currently see this information.

#### *Staff costs*

- Staff costs have also increased significantly in the review period. Of particular note is the 6.4% cost of living award that all staff were granted in January 2009, in accordance with the contractual clause in employment contracts. This has put additional pressure on the finances of the Trust at a time when both public and private sector staff were facing (at best) static earnings levels, and the 2009 wage rise cost the Trust an estimated £145,000.
- Over a longer period of time, since 2001, Jersey Heritage pay increases have exceeded those of the States by a small percentage (3.2%), but this is spread across 9 years. Individual years have seen the States increase sometimes exceed that of Jersey Heritage; however the different methodologies adopted by the respective organisations have produced a broadly similar overall result.

#### *Normalised figures*

- The summary of trading activities presented is "normalised", due to non recurring items, including an exceptional expense relating to the goodwill payment in relation to the acquisition of the castle ferry operation, which are excluded to arrive at a "normalised" position. This transaction alone represents an additional expense and cash outflow of £122,000 (of a total non-recurring spend of £156,000), which increased the trading deficit to £1.02m in 2008.
- There have been other items of expenditure in recent years which might be considered to be exceptional although we have not added all of these back to normalise the pro-forma trading result. This is as a result of a change in the business model that means these costs may be ongoing although possibly not at the levels seen in 2008 and 2009. Such costs include additional spend by the Trust on the

retail and café concession space at some of its sites. The issues and associated costs are more fully explained below.

***Other trading income and expenses***

- The tables opposite provide an analysis of the other trading income and other trading expenses that are referred to in the summary table on page 91.
- All of these items relate to the operation of the sites and the overall trading (or revenue generating) activities of the Trust. However, it is not appropriate to allocate these items of income and expense to individual attractions.
- We discuss specific items within this Report.

***Proforma summary – other trading income***

|   | FY 2006A | FY 2007A | FY 2008A | 9M 2009A |
|---|----------|----------|----------|----------|
|   | £        | £        | £        | £        |
| Memberships                               | -        | -        | 51,713   | 65,241   |
| Business memberships                      | 31,250   | 27,350   | 38,450   | 34,000   |
| Sponsorship                               | 55,500   | 55,713   | 55,550   | 107,208  |
| Publications                              | 15,579   | 18,280   | 5,704    | 30,424   |
| Catering income                           | 676      | 599      | 468      | -        |
| Signal station                            | -        | 16,725   | 17,375   | 18,487   |
| Societe Jersiaise                         | 2,464    | 2,553    | 4,481    | 6,147    |
| Reproduction / hire fees                  | 5,262    | 5,129    | 4,527    | 3,835    |
| Donations                                 | 7,353    | 8,232    | 6,276    | 6,179    |
| Other trading                             | -        | -        | 1,020    | -        |
| Other consultancy, sponsorship and grants | 997      | 19,661   | 12,923   | 378      |
|   | 119,081  | 154,242  | 198,487  | 271,899  |

Source: BDO analysis

***Proforma summary – other trading expenses***

|   | FY 2006A  | FY 2007A  | FY 2008A  | 9M 2009A  |
|---|-----------|-----------|-----------|-----------|
|   | £         | £         | £         | £         |
| Marketing costs   | (101,947) | (93,249)  | (120,110) | (180,834) |
| Marketing and business development personnel Management Designers & technicians | (392,382) | (338,653) | (352,587) | (272,729) |
| Motor vehicle expenses  | (8,374)   | (15,184)  | (9,604)   | (8,731)   |
| Electrical expenses   | (7,218)   | (8,021)   | (8,040)   | (5,394)   |
| Plumbing, stores and equipment maintenance                                      | (16,399)  | (21,796)  | (17,243)  | (12,428)  |
| Sundry  | (15,124)  | (15,589)  | (7,460)   | (3,604)   |
|   | (541,444) | (492,492) | (515,043) | (483,721) |

Source: BDO analysis

### Catering at sites

- Jersey Museum, both of the castles and Hamptonne have full café facilities. Other sites may sell coffees, ice creams and similar but don't have a full catering offer.
- The Museum Brasserie is rented to a local company for an annual rental of [redacted]. The arrangement ensures that the tenant is also responsible for its own rates and utilities.
- The castle cafes have seen a number of changes in recent years, and the Trust has found it difficult to attract and retain operators as a result of the limited financial potential for these businesses, even when the exclusive right to cater events at Mont Orgueil was part of the contract. As a result, the Trust has invested fairly heavily in the café sites in 2008 and 9M 2009, spending in excess of £20,000 at Elizabeth Castle and around £8,000 at Mont Orgueil.
- Both the castle cafés are operated by third parties for an annual fee base on 15% of turnover, with the first £50,000 of turnover being exempt. Income generation is minimal or nil.
- Hamptonne has relatively low visitor numbers. The arrangement with the operator has not resulted in any income accruing to the Trust, as it was not viable to obtain an operator which would pay any level of rent or fee. During 2008 the long standing operator terminated their agreement and the new operator appointed in 9M 2009 ceased trading in July 2009. The café was closed for the rest of the 2009 season, although opened for events when the provision of refreshments is critical.
- It is planned to spend a further £6,450 on café fixtures and fittings at the castle cafes in 2010.

### Retail units at sites

- For some years the retail offering at each of the sites has been operated by third parties, with the Trust receiving a proportion of the turnover as concession fees. The Trust provided staff for all shops, although these staff were not dedicated shop staff and were staffing the front desk already.
- Three different operators held the concessions in 2008. By the end of 2008 one had advised that it was not economically viable for them to continue into 2009. Another took the decision to withdraw from the concessions within three sites in 2009.
- In recent months, the shops at both castles were brought back in-house, and a commercial operations officer oversees the retail activities and is currently working for JHT on a fixed term contract (which expires in March 2010). This staff member is also involved in reviewing and suggesting admissions prices and reporting on admissions data, as well as management of the contracts with the catering providers.
- Jersey Heritage took its own decision in 2008 to operate all retail offerings directly over time, further to advice received from a specialist consultant firm, Retail Matters, which has worked extensively with other heritage organisations in the UK. The review undertaken by Retail Matters was instructed in anticipation of certain licence holders leaving in 2009.
- Retail Matters has partnered with the Trust in respect of the shops at the Castles since the beginning of the 2009 season to begin the transition of bringing the whole retail offering in-house.
- This change in business model has brought Jersey Heritage in-line with most other heritage sites. Outsourcing of retail operations is uncommon in the industry, unlike catering, which is almost

exclusively outsourced due to the added operational complexities and risks, which are not presented by retail operations.

- This arrangement continued until the end of October 2009, when Elizabeth Castle closed for the season and all other concession arrangements were terminated with the exception of the Museum bookshop which continues until the end of 2009.
- Preceding the development of this strategy during 2009 was an increasingly unsatisfactory situation with the operators of both retail operations and certain of the cafes, who were all finding it difficult to operate financially viable businesses. This had resulted in additional spend on the facilities in 2008 and 9M 2009 of £33,000 and £28,000 respectively. Whilst as a proportion of the total spend of the Trust these are not overly significant amounts, the total of £61,000 has added pressure to the Trust's fragile financial position.
- The key findings from the specialist's report, which advised that the operation of retail be brought in-house, were as follows:
  - Retail spend per head is below its potential.
  - Merchandise in shops is not always appropriate to the attraction and can be uninteresting and of poor quality.
  - Location of shops and flow of visitors, together with visual merchandising can be improved in some cases.
  - Significant potential for increasing gross income.
- Our main observation of the recent developments related to the retail operations at Jersey Heritage sites is that a full contribution analysis does not appear to have been carried out by the Trust further to the issue of the Retail Matters report, and to facilitate the Board's decision.

- Retail Matters estimated that gross retail margin could increase by 527%, which had been estimated at circa £70,000. This was before deduction for the cost of the commercial operations manager and any fees payable to Retail Matters, as well as any other costs, for example, fixtures and fittings.
- The budgeted performance for 2010 does not reflect such large potential in the retail business unit. A gross margin of circa £51,000 is budgeted in 2010 in order to recognise a conservative estimate for early years' trading, as compared to Retail Matters' estimate of at least £70,000.
- As Jersey Heritage moves towards operation of the retail offering at its sites, there are some additional financial commitments that arise. This has been estimated at circa £35,000, as set out in the table on the following page.

***Retail outlet commissions***

|                  | FY 2008 | 2009 Forecast |
|------------------|---------|---------------|
|                  | £       | £             |
| Jersey Museum    | 3,546   | 3,518         |
| Maritime Museum  | 3,739   | 2,950         |
| Elizabeth Castle | 1,360   | 4,016         |
| Mont Orgueil     | 2,368   | 5,152         |
| La Hougue Bie    | 2,788   | 1,771         |
| Hamptonne        | 2,242   | 2,512         |
|                  | 16,043  | 19,919        |

*Source: JHT retail reports*



- The first table does not present a complete picture of the expenses and cash commitments that will arise. Jersey Heritage has not yet prepared a fully integrated profit and loss, cash flow and balance sheet budget or forecast for 2010. As a result we do not have detailed information about the additional cash outflows (or timing thereof) that will arise in 2010 as a result of the strategic decision to bring all retail operations in-house. We have, however, used the draft budget schedules to present a summary of the additional cash outflows that are currently planned to arise.
- The budget prepared by the commercial operations manager estimates the contribution from each site's retail operation. However, this excludes the salary of her post, which is classed as a central administration role. We set out in the final table opposite the overall budgeted result in 2010 from the retail offering taking account of an estimated allocation for staff costs.
- As the table shows, this accounting format results in a pro-forma net surplus from retail operations expected in 2010 of £3,489. This result would seem to suggest that the decision to take retail in-house will leave the Trust in a worse position when compared to the previous business model through which the Trust simply earned a concession fee or commission income, and did not therefore need to permanently employ a commercial operations manager.
- We do acknowledge though, that the viability of the retail operations to third party operators may have diminished to the extent that there would not have been a retail offer at the operated sites in 2010 unless the Trust had made the decision to provide them itself.

***Forthcoming costs associated with retail***

| Description of expense / cash outflow    | Estimated timing       | £      |
|--|------------------------|--------|
| Commission                               | All before end<br>2009 | 10,000 |
| Stock acquisition                        |                        | 13,000 |
| Consultancy fees                         |                        | 10,000 |
| Stock acquisition – outgoing concessions |                        | 1,700  |
|  |                        | 34,700 |

*Source: Discussions with management*

***Budgeted expenses / cash outflows related to retail 2010***

| Description of expense / cash outflow                                | Estimated timing | £      |
|--|------------------|--------|
| Cost of sales – goods for resale                                     | Assume Q2        | 55,885 |
| Shop fittings  | Assume Q1        | 5,000  |
| Elizabeth Castle – new counter and other changes to the retail space | Assume Q2        | 8,000  |
| Miscellaneous  | Assume Q2        | 2,500  |
| Consultancy fees   | Assume Q3        | 11,667 |
|  |                  | 83,052 |

*Source: Commercial manager's budget*

***Pro-forma budgeted contribution from retail operations 2010***

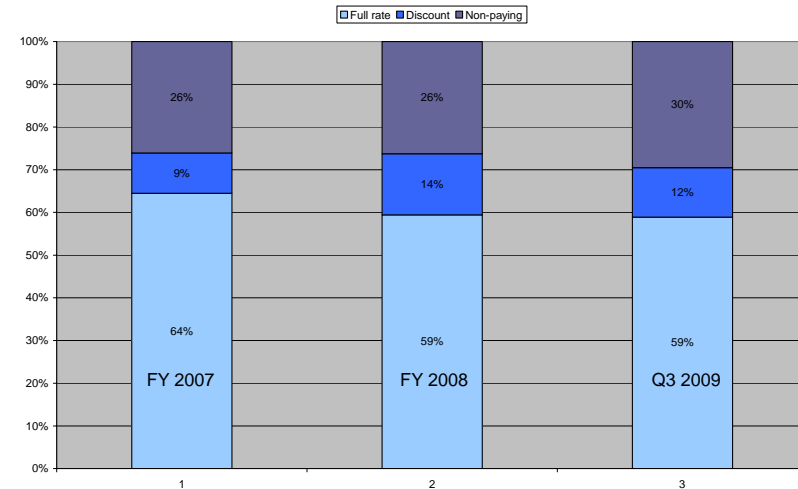
| Extracted from draft 2010 budget                  | £        |
|---|----------|
| Sales   | 107,471  |
| Cost of sales                                     | (55,885) |
| Gross margin                                      | 51,586   |
| Other direct expenses (some may be non-recurring) | (27,167) |
| Gross profit                                      | 24,419   |
| Estimated staff costs                             | (20,930) |
| Net surplus from retail operations                | 3,489    |

*Source: Commercial manager's budget*

### Key performance indicators

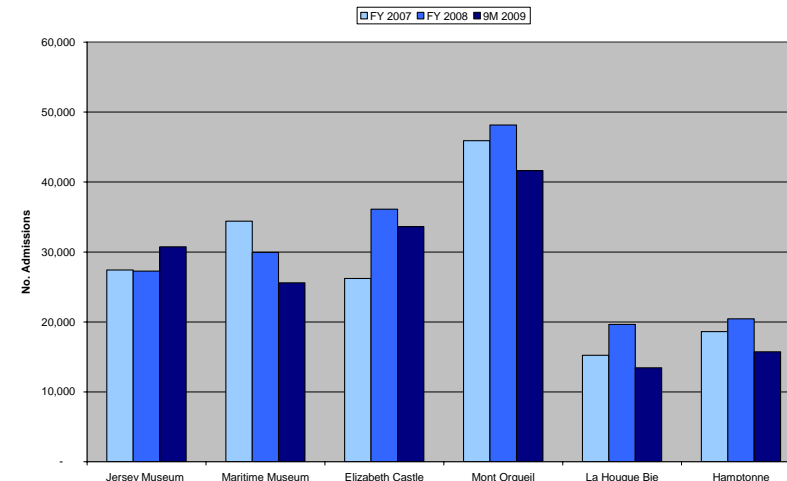
- As tourism has declined, that decline having taken place over a far longer period than that presented here, Jersey Heritage has needed to attract more local visitors. This has resulted in an increase in non-paying admissions; particularly given the entitlement of all Jersey school children to a 'Flash Card' giving them free access to all Jersey Heritage sites.
- The chart opposite sets out the proportion of paying and non-paying visitors. In recent years the proportion of non-paying admissions has increased, from 26% in 2007 to 30% in 9M 2009. The non-paying proportion has grown as the overall proportion of local visitors has risen.
- Admissions at Jersey Museum have increased in the 9M 2009 as a result of the Marilyn Monroe exhibition, which is now intended to continue into 2010.
- Entrances at the Maritime Museum have declined in 9M 2009, as well as at La Hougue Bie and Hamptonne. The Maritime Museum is open throughout the year, although La Hougue Bie and Hamptonne close at the end of October therefore will not generate significant additional entrances in Q4 2009.
- Mont Orgueil continues to be the most popular attraction and has shown a very strong performance since reopening in 2006, after a short period of closure as part of the extensive restoration and refurbishment of this site.
- Elizabeth Castle admissions appear to show an increase from 2007 to 2008, however this is because the castle was closed for 76 of the 186 scheduled days opening in 2007 when there were issues with operation of the castle ferry service.

### Percentage split of full rate, discount and non-paying admissions



Source: BDO analysis

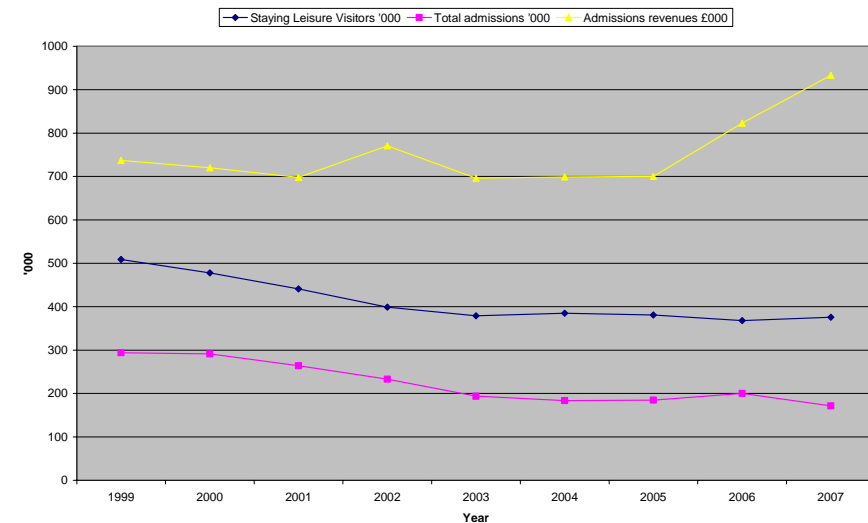
### Total site admissions



Source: BDO analysis

- The chart opposite records the declining number of leisure visitors to Jersey together with the total number of visitors to Jersey Heritage sites (including local and free attendances). We have also plotted the total admissions revenues before any transfers to the AMF and F&T Funds.
- Visitors to Jersey Heritage sites have followed a trend that is substantially consistent with the leisure visitor numbers to the Island; although in 2007 Jersey Heritage saw a slight drop whilst the total visitor numbers remained approximately consistent.
- This appears reflective of a shift in the length of visitor stays, which have been moving toward short breaks rather than longer holidays, necessarily providing visitors with less time to visit cultural or heritage attractions.
- Jersey Heritage has been successful in reacting to lower overall visitor numbers by increasing the proportion of local footfall; however this has been helped by the curiosity factor associated with the re-opening of Mont Orgueil (although the project only resulted in full closure of the castle between October 2005 and March 2006). Following the work, Mont Orgueil has become the highest priced attraction and has also generated the highest footfall, which had a very positive effect on the admissions income of the Trust.
- In 2007, the direct collection of the castle ferry revenue, under arrangements with the then operator, also increased the admissions income. The related costs were recorded elsewhere and not offset. The increase in revenue in 2007 relating to ferry ticket income was £93,000, but the corresponding growth in the Trust's cost base far exceeded this at £173,000.
- During this period the introduction of Flash Days, as well as a free open day at Mont Orgueil, also had a positive impact on the total reported admissions numbers.

### Tourist numbers, JHT visitors and admissions revenue



Source: States Statistics, Jersey Heritage footfall and income figures

### Free admissions

- The admissions recorded as ‘free’ are captured as such because they do not generate ticket admission revenues. However, there are some income streams associated with these admissions, such as the membership scheme (formerly sold as a season ticket) which generates an annual “subscription” and the Gold Cards for the over 65s (or previously over 60s) which to date has been supported by a private sponsor.
- The Flash Cards issued to Jersey school children (of any age as long as they are in education) have also been supported by private sponsorship. Both the Flash Card and Gold Card sponsors have withdrawn for 2010.
- Sponsorship attaching to these two types of free entry is not based on an estimate of the cost of the provision of this free entry. For example, a local sponsor made an annual £2,750 contribution for supporting the entry of all over 65s (who apply) in Jersey, which many years ago was linked to the estimated revenues that over 60s entrances would generate, however the demographic has changed since then without revision to the sponsored amount.
- The withdrawal of these sponsorships, which would have totalled around £25,000 for 2010, will have a significant impact given the current financial position of the Trust. The possibility of charging admissions for some of the groups which have in the past benefited from free admission is currently being considered by management.
- The first table opposite presents a theoretical net cost of granting free admissions, by comparing the total revenues generated with the total estimated ticket value of those free admissions. The total ticket value of free admissions should not however be considered as lost revenue as it is not likely that all those individuals would necessarily visit if an admission price was applicable.

### Other income associated with free admissions (including members)

|   | FY 2007A  | FY 2008A  | Q3 2009A  |
|---|-----------|-----------|-----------|
|   | £         | £         | £         |
| Total ticket value of “free” admissions | (257,527) | (281,023) | (277,205) |
| Membership revenue                      | 42,880    | 51,713    | 65,241    |
| Corporate membership                    | 27,350    | 38,450    | 34,000    |
| Gold Card sponsorship                   | 2,750     | 2,750     | 2,750     |
| Flash Card sponsorship                  | 6,000     | 15,400    | 20,700    |
|   | 78,980    | 108,313   | 122,691   |
| Theoretical net cost                    | (178,547) | (172,710) | (154,514) |

Source: BDO analysis

### Estimated ticket value of free admissions (excluding members)

|                  | FY 2008A  |            |         | Total   |
|------------------|-----------|------------|---------|---------|
|                  | Gold Card | Flash Card | Other   |         |
|                  | £         | £          | £       | £       |
| Jersey Museum    | 6,080     | 7,992      | 19,617  | 33,689  |
| Maritime Museum  | 5,866     | 10,467     | 27,985  | 44,318  |
| Elizabeth Castle | 1,285     | 4,410      | 8,927   | 14,622  |
| Mont Orgueil     | 4,879     | 13,343     | 33,018  | 51,240  |
| La Hougue Bie    | 2,532     | 5,448      | 12,185  | 20,165  |
| Hamptonne        | 5,520     | 7,696      | 22,150  | 35,366  |
|                  | 26,162    | 49,356     | 123,882 | 199,400 |

Source: BDO analysis

- Whilst the main groups entitled to free entry are children and the over 65s, there are a large number of other free admissions, such as members of the Societe Jersiaise, school teachers accompanying visits, media etc. These are referred to as “other” free admissions in the second table above.

## Heritage Memberships

- The Jersey Heritage membership was launched in 2008 as a re-branding of the previously sold ‘season ticket’. The scheme can be joined by individuals or couples, as well as corporate supporters which are known as ‘business associates’ of the Trust.
- Changes in the database used to record the information, together with the introduction of a joint membership, means that the number of members (as presented in the table opposite) is not comparable. A joint membership is now recorded as a single membership; hence the apparent drop in the number of members from 2007 to 2008, versus an increase in income.
- Memberships require an annual donation of £40 (individual), £60 (couple) or £1,000 (business associate).
- As the table shows, memberships do not represent a major income stream for the Trust currently, although as a percentage of total trading revenue it is growing.
- This is one of the areas that Jersey Heritage believes has potential and around £40,000 has been spent in 9M 2009 on the “Love Your Heritage” campaign, which included a major focus on marketing memberships.
- Whilst the scheme clearly has potential for expansion, the income potential will always be limited in the context of the significant structural funding gap that the Trust is currently facing, and its cost base as a whole. To illustrate the point, if every Jersey resident was a Jersey Heritage member the total revenue generated would be circa £3.6m, still less than the total annual spend of the Trust.
- The scheme is also in competition with other memberships and season tickets which are offered by other attractions on the Island.

## Ticket value of membership admissions versus income

|  | FY 2007A      | FY 2008A      | Q3 2009A      |
|--|---------------|---------------|---------------|
|  | £             | £             | £             |
| <b>Face value of tickets used by members</b>     |               |               |               |
| Jersey Museum                                    | 6,725         | 11,010        | 11,197        |
| La Hougue Bie                                    | 5,251         | 8,202         | 6,212         |
| Hamptonne  | 12,082        | 14,561        | 11,598        |
| Mont Orgueil                                     | 21,990        | 25,129        | 19,370        |
| Elizabeth Castle                                 | 3,912         | 7,972         | 12,375        |
| Maritime Museum                                  | 15,391        | 14,749        | 11,890        |
|  | <b>65,351</b> | <b>81,623</b> | <b>72,642</b> |
| <b>Membership revenues</b>                       |               |               |               |
| Membership revenues                              | 42,880        | 51,713        | 65,241        |
| Business associates revenues                     | 27,350        | 38,450        | 34,000        |
|  | <b>70,230</b> | <b>90,163</b> | <b>99,241</b> |
| Membership revenue as % of total trading revenue | 5.9%          | 7.1%          | 7.7%          |
| Surplus of membership revenue over ticket value  | 4,879         | 8,540         | 26,599        |
| Recovery rate                                    | 107%          | 110%          | 137%          |

Source: BDO analysis

## Number of members

|   | FY 2007A | FY 2008A | Q3 2009A |
|---|----------|----------|----------|
| Number of members                                 | 1,033    | 963      | 795      |
| Number of business associates (corporate members) | 27       | 41       | 42       |

Source: Jersey Heritage quarterly report

### Jersey Museum and Art Gallery

- Jersey Museum and Art Gallery was opened in 1992.
- It achieved “The Most Outstanding Tourist Attraction” on opening in 1992, and also attained the “National Heritage Museum of the Year Award” in 1993-94.
- However, no significant investment has been made since opening and the permanent exhibits and interpretation remains unchanged. What was originally a technologically advanced and interactive museum, is now tired and in need of capital investment.
- Temporary exhibitions have been held over the last few years, most notably the Marilyn Monroe costume collection (“Marilyn”) currently being shown, which has managed to attract a higher level of footfall to the Museum than in 2008.
- It is exhibitions such as Marilyn that enable JHT to attract similar levels of visitors as in the past. However, temporary exhibits typically have a high cost associated which the Trust will continue to find difficult to fund within its current level of service provision and funding.

### Exhibits at Jersey Museum and Art Gallery



Source: Jersey Heritage website

### ***The “1987 Agreement”***

- Under an agreement between the Societe and Jersey Heritage dated 2 November 1987 (the “1987 Agreement”) and a further separate agreement with the States, the museum related collections of both the Societe and the States of Jersey were transferred into the care of the Trust.
- This gave Jersey Heritage the right to display the collections but also the obligation to store and conserve them. The service was to be delivered by the Jersey Museums Service on behalf of the Museum Management Committee, on which the Societe, the States and Jersey Heritage were all represented.
- Under that same agreement, various plots of land were transferred to Jersey Heritage, on which the current museum was built, with funding from the States of Jersey.
- We understand that the freehold of the property is owned by the Trust, however, it is noted that the Societe has a reversionary interest in respect of the both the Museum and the land it is built on. In the event that a museum no longer operates at the premises at Pier Road, then we understand that the usufruct will revert to the Societe.
- The 1987 Agreement is a complex agreement which has been interpreted in different ways by different people in the past. As a result, there have been various endeavours to clarify and update the position.
- In February 2007 Jersey Heritage signed up to heads of agreement (the “Accord Main Heads”) underlying a possible future accord with the Societe Jersiaise (the “Accord”) for the mutual benefit of the organisations. The introduction to this document makes reference not only to the 1987 Agreement, but also to separate agreements in relation to La Hougue Bie and Hamptonne, which are explained in the relevant site summaries below.
- The Accord Main Heads states that Jersey Heritage and the Societe Jersiaise should each support the other’s work, whilst recognising joint and separate responsibilities for conservation and preservation of their assets.
- The primary focus of the Accord Main Heads was clarity in respect of the collections and to ensure that parties from the Societe understand how Jersey Heritage is discharging its responsibilities from the 1987 Agreement, for example compliance with museum standards and the process of regular audit to ensure collections are safeguarded.
- As part of this review, we met individually with each of the Trustees, one of whom is the President of the Societe Jersiaise. Notwithstanding that there may be a perceived conflict of interest for any President of the Societe acting as Trustee of the Trust, it does appear to have been useful to keep this line of communication open.
- In the current environment, where both organisations are now in a different financial position than when the constitution of the Trust was approved and the relationship was “defined”, they are in effect “fishing in the same pool” for donations, bequests and membership revenues. It is only relatively recently that Jersey Heritage has obtained charitable status and this, together with the introduction of Jersey Heritage’s membership scheme, has created a degree of tension in the relationship between these two organisations, which has been discussed elsewhere.

### **Pro-forma (cost) / contribution of Jersey Museum**

- This site has consistently cost the organisation money to operate, and is therefore a 'subsidised' activity.
- The 9M 2009 results currently show a positive net contribution, however this will move to a net cost by the year-end given that admissions income will fall between October and December.
- The main reason for fluctuation in the level of the net cost over the years is the Site Team spend, together with a notable increase in the cost of Visitor Services staff and Site Guardians from 2006 to 2007. The 2008 figures reflect the highest total costs in any of the review periods.
- Site Team expenses comprise building maintenance costs (such as lift maintenance), interpretation and grounds maintenance. There is no single explanation for the higher level of expense incurred in 2008, although it is noted from review of the accounting records that almost £6,500 was spent on automatic doors at the Museum, in order to reduce the costs of climate control in the exhibition areas.
- Staff costs have been considered in detail in Section 12 and below, and the staff cost increases in the period partly reflect cost-of-living pay awards.
- Exhibition costs in 2008 and 2009 include costs associated with the Marilyn exhibition.
- Heat light and water costs related to the Museum have been reduced by 25%, instead being allocated to central administration, representing the offices occupied by Jersey Heritage which are in the same location. These are captured as part of the central cost centre analysis.

### **Pro-forma (cost) / contribution – Jersey Museum and Art Gallery**

|                                  | FY 2006A         | FY 2007A         | FY 2008A         | 9M 2009A         |
|----------------------------------|------------------|------------------|------------------|------------------|
|                                  | £                | £                | £                | £                |
| <b>Income</b>                    |                  |                  |                  |                  |
| Admissions income                | 96,388           | 116,775          | 116,902          | 149,200          |
| Exhibition sponsorship           | -                | 7,000            | 2,600            | 12,000           |
| Heritage Venue hire              | 25,604           | 28,078           | 25,275           | 18,124           |
| Staff flat - rental income       | 6,880            | 8,110            | 7,110            | 5,333            |
| Rental income - Brasserie        | 18,962           | 18,174           | 21,000           | 17,667           |
|                                  | <b>147,834</b>   | <b>178,137</b>   | <b>172,887</b>   | <b>202,323</b>   |
| <b>Expenses</b>                  |                  |                  |                  |                  |
| Site guardian staff              |                  |                  |                  |                  |
| Visitor services staff           |                  |                  |                  |                  |
| Living History staff             |                  |                  |                  |                  |
| Cleaning staff                   |                  |                  |                  |                  |
|                                  | (118,696)        | (120,680)        | (135,451)        | (97,889)         |
| Direct costs Heritage Venues     | (2,394)          | (484)            | (4,641)          | (1,421)          |
| Site Team expenses               | (33,914)         | (14,575)         | (30,358)         | (7,608)          |
| Exhibition costs                 | (11,127)         | (17,194)         | (40,181)         | (28,493)         |
| Heat, light and water            | (31,360)         | (35,492)         | (36,590)         | (27,777)         |
| Security                         | (1,687)          | (2,268)          | (3,130)          | (1,850)          |
| Cleaning - third party procured  | (2,301)          | (2,949)          | (2,074)          | (1,146)          |
|                                  | <b>(201,479)</b> | <b>(193,642)</b> | <b>(252,425)</b> | <b>(166,184)</b> |
| <b>Net (cost) / contribution</b> | <b>(53,645)</b>  | <b>(15,505)</b>  | <b>(79,538)</b>  | <b>36,140</b>    |

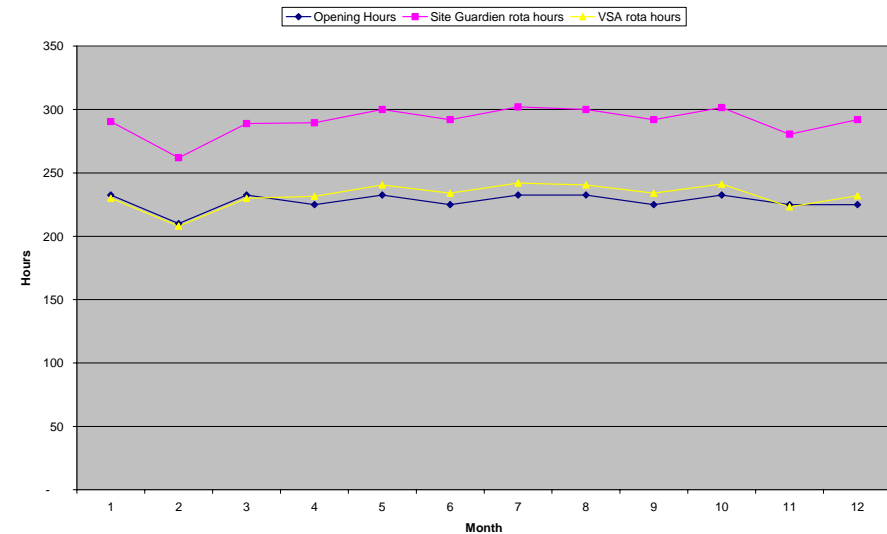
Source: BDO analysis



### Jersey Museum staffing

- Of the total direct costs attributable to the Museum operations, around 60% relates to staff costs.
- Site guardians are employed to safeguard and look after sites, and are responsible for opening and closing, security and maintaining high standards of site appearance and operations by undertaking routine maintenance requirements and overseeing both the external contractors and the internal technicians. The staff rota hours for site guardians far exceeds the opening hours of the Museum, as the chart opposite demonstrates.
- As a site which is open all year round, albeit with some slightly reduced opening hours in the winter, the excess of site guardian rota hours over site opening hours remains constant throughout the year as shown in the graph.
- In order to save staff costs under the existing opening hours, site guardian working hours would need to be reduced. Certain scenarios of reduced hours have been considered by management in the past, although we understand that difficult decisions of this nature have not been taken as a result of the other implications and risks, together with the fact that these measures would not be sufficient to rebalance the finances of the Trust.
- We can appreciate management's desire to adopt a strategy where multiple changes, particularly those changes relating to people, are implemented at the same time as part of a major restructuring, rather than a large number of smaller measures that may only trim the cost base rather than deal with structural cost issues.
- Visitor Services Assistants are required during opening hours and the graph clearly demonstrates this as those lines are closely aligned. However it is worth noting that the chart is based solely on intended rota hours, rather than actual hours worked, which are not captured in reports produced currently.

### Site staff rota versus opening hours



Source: BDO analysis

- The permanent exhibits at the Museum were originally installed in 1992 when the Museum first opened. Since then there has been minimal spend on the permanent exhibition, but where possible temporary exhibits have been put on to maintain interest and drive footfall into the Museum.

- Temporary exhibits can however be expensive, because the cost of transport, and undertaking new research as part of producing a new catalogue, is generally high. It is not common practice for lenders of individual items to charge a fee to the borrower, so it is solely the associated costs which would represent the incremental cost to Jersey Heritage. This is combined with the time spent by staff already on the payroll, being curators, designers and technicians and for whom there is a significant cost of retention. Higher costs are associated with showing an exhibition which is touring around various museums, where a fee is payable. Jersey Heritage has been unable to take on any of these “touring” temporary exhibitions as a result of cost constraints.

### Admissions revenue

- A declining number of paying admissions between 2007 and 2008 has been reversed in 9M 2009 by an increased number of visitors as a result of the Marilyn Monroe exhibition. Footfall and ticket pricing is reviewed in detail below.
- The average revenue per entrance, driven by a higher proportion of paying admissions has also been positively affected by the Marilyn exhibition, which has now been extended into 2010 both as a result of its popularity and given that the costs will be minimal compared to the alternative of staging a new exhibition.
- The owner of the collection is resident in Jersey and has given up a significant amount of his time as a volunteer to give a weekly talk to visitors, which brings the collection to life and adds value.
- This exhibit is a good example of where Jersey Heritage has taken a commercial decision, because the subject matter is unrelated to the aims and objectives of the Trust as set out in its constitution, but has been pursued at the expense of another exhibit that may have been more closely aligned with Jersey’s heritage.

### Admissions revenue and KPIs

|   | FY 2007A      | FY 2008A<br>Draft | 9M 2009A      |
|---|---------------|-------------------|---------------|
|   | £             | £                 | £             |
| <b>Revenue</b>                              |               |                   |               |
| Admissions income                           | 116,775       | 116,902           | 149,200       |
| Admission revenue per entrance<br>(average) | £4.26         | £4.29             | £4.85         |
| % increase                                  | n/a           | 1%                | 13%           |
| <b>No. of entrances</b>                     |               |                   |               |
| Paying                                      | 20,780        | 18,838            | 21,918        |
| Non paying                                  | 6,646         | 8,417             | 8,841         |
|   | <u>27,426</u> | <u>27,255</u>     | <u>30,759</u> |
| <b>Percentage of entrances</b>              |               |                   |               |
| Paying %                                    | 76%           | 69%               | 71%           |
| Non paying %                                | 24%           | 31%               | 29%           |
|   | <u>100%</u>   | <u>100%</u>       | <u>100%</u>   |

Source: JHT management accounts and footfall statistics

- An example of this would be the potential showing of the painting representing the Battle of Jersey, “The Death of Major Pierson”, which is part of the Tate’s collection. However, the exhibition was deferred under current financial circumstances.
- There are also opportunities for subsidy of the cost of temporary exhibitions through sponsorship and this income is included within the estimated net cost for the site. In the current economic climate obtaining sponsorship is very difficult. The sponsor lined-up for the intended Blampied exhibition in 2010 has withdrawn.

- The non-paying entrances relate to the gold card access provided to pensioners (Jersey residents over 65 are eligible to apply for a card, this was previously set at age 60), as well as Jersey school children (those under the age of 18 in full time education). There are also a number of other entrances recorded as free such as people with memberships of either Jersey Heritage or the Societe Jersiaise, school visits (including teachers' admissions) and the disabled.
- Jersey Museum ranks third out of the six sites for the proportion of visitors who pay an admissions charge (including discounted rates which are applicable to holders of the Jersey Pass, or those visiting in a group for example).

### Pricing

- The ticket pricing structure is agreed annually by the Board of Trustees, and is shown opposite.
- Proposals are prepared by the commercial operations officer, and reviewed by the Finance Director before being put forward to the Board for their consideration. The process includes an estimate of the admissions revenue, based on the previous year's footfall that would be generated under the new pricing structure.
- Between the 2008 and 2009 seasons, the average entrance price declined by 17 pence, which was as a result of the introduction of a student ticket at a discounted price, which had not previously existed. Only very minimal increases were implemented to other types of ticket, with standard adult entrance remaining static. Going into 2010, increases are intended although prices remain below the £10 level which is considered important.
- It is not possible for the setting of prices to be a scientific process with the impact on footfall not known in advance of implementing a change. Consideration is given to the cost of entering other attractions on the Island, such as the War Tunnels and Durrell.

### Ticket pricing structure

|                    | 2007  | 2008  | 2009  | 2010 - proposed |
|--------------------|-------|-------|-------|-----------------|
|                    | £     | £     | £     | £               |
| Adult              | 5.60  | 7.00  | 7.00  | 8.00            |
| Senior and student | 4.80  | 6.40  | 6.50  | 7.00            |
| Student            | n/a   | n/a   | 4.20  | 4.50            |
| Child (6-16)       | 4.80  | 4.00  | 4.20  | 4.50            |
| Family ticket      | 16.00 | 20.00 | 21.00 | 22.50           |
| Average            | 4.80  | 5.60  | 5.43  | 5.93            |

Source: JHT management accounts and footfall statistics

### Estimated ticket value of free admissions (excluding members)

|   | FY 2007A | FY 2008A   | 9M 2009A |
|---|----------|------------|----------|
|   | £        | Draft<br>£ | £        |
| Jersey senior citizens                    | 3,893    | 6,080      | 8,359    |
| Jersey school children (under 18)         | 7,018    | 7,992      | 8,345    |
| Other                                     | 14,266   | 19,617     | 19,038   |
|   | 25,177   | 33,689     | 35,742   |
| As a % of admissions income <sup>15</sup> | 22%      | 29%        | 24%      |

Source: BDO analysis

- The second table above sets out the estimated value of the free admissions, based on the appropriate ticket price for the age group. The summary is simply a calculation of the ticket price equivalent of those "free" entrances. It is not intended to represent potential "lost" revenue, see also page 100.

<sup>15</sup> Calculated as a percentage of actual income from paying admissions

### Maritime Museum and Occupation Tapestry Gallery

- The Maritime Museum opened in 1997, and was the winner of the National Heritage “NPI Museum of the Year Award” for 1998/99.
- The Maritime Museum is based on interactive displays and interpretation designed to engage visitors and get them involved. The Occupation Tapestry Gallery, exhibited in a separate space at the same site, was made by local people to celebrate the 50<sup>th</sup> anniversary of Jersey’s liberation from German occupation.
- The entrance fee entitles visitors to see both attractions and whilst a reduced charge can be applied for those visitors solely viewing the tapestry, this is not a widely advertised entrance fee and the discount is given only if a customer specifically requests it.
- The museum is the home of the Friends of the Maritime Museum (the “Friends”), which is a long established Jersey Charity which has been involved in the collection and preservation of Jersey’s maritime history for many years.
- The museum houses the workshop which is utilised by the Friends for their restoration and maintenance work on the Heritage owned boats of historic significance, of which five are listed on the National Register. A great deal of volunteer time from the Friends has contributed to the efforts of Jersey Heritage in planning, opening and operating the Maritime Museum.
- The Maritime Museum has been publicised by the Board of Trustees and management as “at risk” in any reorganisation of the Trust’s activities in order to balance the books, and this is as a result of this site being the only one on which rent is payable which contributes to an annual financial deficit arising.

### Boatbuilding workshop at Maritime Museum and Tapestry Gallery



Source: Jersey Heritage website

### Pro-forma net cost of the Maritime Museum

- The site has consistently cost Jersey Heritage money to run as an attraction. Even if no rent had been payable to Jersey Harbours, each year or period presented would have delivered a net deficit based on an estimate of direct costs.
- The net cost increased significantly between 2007 and 2008 which reflects rising staff costs, rent and utilities.
- When compared to other sites, the direct staff cost is higher as a result of a cleaner who works solely at these premises, together with a part time boat-builder (3 days per week).
- It should be noted that the boat-builder is also responsible for operating the Fort Regent Signal Station, which generates income from Jersey Property Holdings. No recharge of an element of this cost has been made.
- The Site Team costs at the Maritime Museum fluctuate, and this is as a result of varying spends on maintenance, tools and materials.
- In 9M 2009A, the reason for the large site team spend is the £30k cost of an air conditioning unit. This has been expensed given the uncertainty of tenure on the Maritime Museum premises. In the light of a possible scenario in which the Maritime Museum could be closed, this accounting treatment appears prudent.
- The rent is currently payable to Jersey Harbours outside of a formal lease. The negotiations for a new lease have been ongoing for some time, although the offer of a 9-year term is not sufficient for Jersey Heritage to have security of tenure from a museum accreditation perspective, and also puts at risk any additional investment which may be needed to be made into the site if it is to continue.

### Pro-forma net cost – Maritime Museum

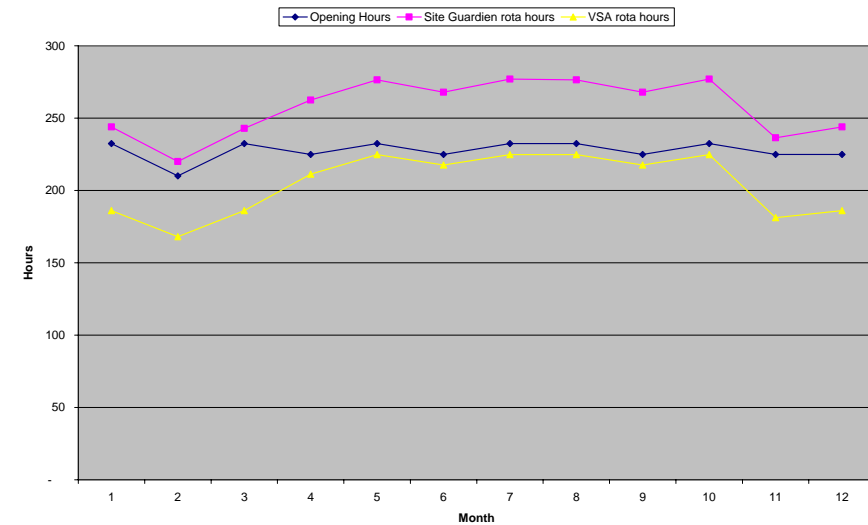
|                                | FY 2006A        | FY 2007A        | FY 2008A         | 9M 2009A         |
|--------------------------------|-----------------|-----------------|------------------|------------------|
|                                | £               | £               | £                | £                |
| <b>Income</b>                  |                 |                 |                  |                  |
| Admissions income              | 131,660         | 148,487         | 121,789          | 109,873          |
| <b>Expenses</b>                |                 |                 |                  |                  |
| Site guardian staff            |                 |                 |                  |                  |
| Visitor services staff         |                 |                 |                  |                  |
| Boat-builder                   |                 |                 |                  |                  |
| Cleaner                        |                 |                 |                  |                  |
|                                | (114,630)       | (121,135)       | (136,861)        | (101,384)        |
| Rent                           | (65,950)        | (67,862)        | (70,508)         | (57,517)         |
| Site Team expenses             | (23,645)        | (14,256)        | (15,835)         | (34,736)         |
| Other direct costs             | (501)           | (10,574)        | (4,232)          | (1,518)          |
| Heat, light and water          | (13,209)        | (17,614)        | (22,640)         | (15,288)         |
| Security                       | (1,469)         | (1,472)         | (1,087)          | (945)            |
| Cleaning                       | (1,419)         | (1,053)         | (1,473)          | (407)            |
|                                | (220,823)       | (233,966)       | (252,635)        | (211,795)        |
| <b>Net cost</b>                | <b>(89,163)</b> | <b>(85,479)</b> | <b>(130,846)</b> | <b>(101,922)</b> |
| <b>Net cost excluding rent</b> | <b>(23,213)</b> | <b>(17,617)</b> | <b>(60,338)</b>  | <b>(44,405)</b>  |

Source: BDO analysis

### Maritime Museum staffing

- Of the total direct costs relating to Maritime Museum operations, circa 50% relate to staff. The proportion of spend on staff is lower than that at the Museum given the increased level of non-staff costs, principally the rent.
- As at the Museum, the hours worked by site guardians exceeds the opening hours of the site by quite some margin, as the chart opposite demonstrates.
- However, the chart opposite also shows that in the winter months the rota hours of site guardians is more closely aligned with the opening hours of the site. In addition the rota hours of VSAs are actually fewer than the opening hours of the site in the winter months, which implies that site guardians are covering part of this role in the winter to ensure greater efficiencies, and a need for fewer VSA hours arising as a result.
- The Maritime Museum is open all year round, albeit with slightly reduced opening hours in the winter. In order to save staff costs under the existing opening hours, site guardian working hours would need to be reduced, and the possibility of moving to seasonal opening could be considered.
- Further detailed analysis of staff costs is presented later in this Report.

### Site staff rota versus opening hours



Source: BDO analysis

### Admissions revenue

- Total admission revenues have declined, with an 18% fall between 2007 and 2008. Whilst the Maritime Museum is open all year round, November and December are very quiet months with fewer than 4,000 admissions. As such, the admissions collected for Q4 2009 are unlikely to result in an upward trend year-on-year from 2008 to 2009.
- Ticket prices remained largely unchanged from 2008 to 2009. The only difference was the introduction of a student rate, which gave rise to an average ticket price that was 5% less than in 2008. Despite this, the average revenue per entrance increased by 6% which implies that the proportion of discounted rate tickets decreased and a greater number of full price tickets were sold.
- Based on 2008 and 2009 footfall statistics, the Maritime Museum is the second most popular site with non-paying visitors. This is likely to be as a result of the appeal of this attraction to children, all of whom are entitled to a flash card providing free access to all sites if they live and are educated locally. (Note, in 2007 this site had the largest proportion of non-paying entrances, however, this was overtaken by Hamptonne in 2008, which is popular with members during its open season between Easter and the autumn half term).
- The potential closure of the Maritime Museum (which has been discussed as one of a package of options to improve the Trust's overall financial position) has other implications, particularly as a result of its popularity with locals. This could result in a larger impact on other income streams such as membership subscriptions or sponsorship, if locals are disappointed with the closure. We are not able to quantify the effect of a decision to close this site.

### Admissions revenue and KPIs

|   | FY 2007A      | FY 2008A<br>Draft | 9M 2009A      |
|---|---------------|-------------------|---------------|
|   | £             | £                 | £             |
| <b>Revenue</b>                              |               |                   |               |
| Admissions income                           | 148,487       | 121,789           | 109,873       |
| Admission revenue per entrance<br>(average) | £4.21         | £4.05             | £4.29         |
| % (decrease) / increase                     | n/a           | (4%)              | 6%            |
| <b>No. of entrances</b>                     |               |                   |               |
| Paying                                      | 23,401        | 19,931            | 15,859        |
| Non paying                                  | 11,828        | 10,141            | 9,726         |
|   | <u>35,229</u> | <u>30,072</u>     | <u>25,585</u> |
| <b>Percentage of entrances</b>              |               |                   |               |
| Paying %                                    | 66%           | 66%               | 62%           |
| Non paying %                                | 34%           | 34%               | 38%           |
|   | <u>100%</u>   | <u>100%</u>       | <u>100%</u>   |

Source: JHT management accounts and footfall statistics

### Pricing

- It is unclear whether the changes in the pricing structure have had an impact on the total admission revenues; there was a significant decline in revenues in the period as discussed above.
- For example, the 5% decline in the average ticket price from 2008 to 2009, actually gave rise to an increase of 6% in the average ticket revenue per entrance (as reported in the table on the previous page). Whilst this inverse relationship may appear unexpected it is affected by the use of averages, which may not be representative of the groups that have actually visited the Museum in the past.
- These figures can inform us about the mix of visitors to the site, and the increase in the average revenue per admission implies that the proportion of full price entries as opposed to discounted rate entries has increased, going some way to offset the growing proportion of non-payers (in total revenue terms).
- As explained in the Jersey Museum section, it is difficult to be conclusive about the effects or possible effects of price changes. It is however worth noting that a full price adult ticket is now priced at £7.50 and it could be perceived that there is little potential for further increases in ticket prices given the facilities at the site. This is particularly the case given that the exhibits have remained largely unchanged since the opening of the museum in 1997, and there are no catering arrangements for example.
- Certain individuals are entitled to free admission, on a consistent basis with Jersey Museum and all other Jersey Heritage sites, and the second table opposite calculates the estimated ticket value of those free entries.

### Ticket pricing structure

|                    | 2007        | 2008        | 2009        | 2010 - proposed |
|--------------------|-------------|-------------|-------------|-----------------|
|                    | £           | £           | £           | £               |
| Adult              | 6.50        | 7.50        | 7.50        | 7.50            |
| Senior and student | 5.70        | 7.00        | 7.00        | 6.50            |
| Student            | n/a         | n/a         | 4.50        | 4.50            |
| Child (6-16)       | 5.70        | 4.50        | 4.50        | 4.50            |
| Family ticket      | 18.70       | 22.00       | 22.00       | 22.50           |
| Average            | <b>5.64</b> | <b>6.13</b> | <b>5.80</b> | <b>5.73</b>     |

Source: JHT management accounts and footfall statistics

### Estimated ticket value of free admissions (excluding members)

|   | FY 2007A      | FY 2008A      | 9M 2009A      |
|---|---------------|---------------|---------------|
|   | £             | £             | £             |
| Jersey senior citizens                    | 5,421         | 5,866         | 4,802         |
| Jersey school children (under 18)         | 15,282        | 10,467        | 9,500         |
| Other                                     | 30,866        | 27,985        | 28,298        |
|   | <b>51,569</b> | <b>44,318</b> | <b>42,600</b> |
| As a % of admissions income <sup>16</sup> | 35%           | 36%           | 39%           |

Source: BDO analysis

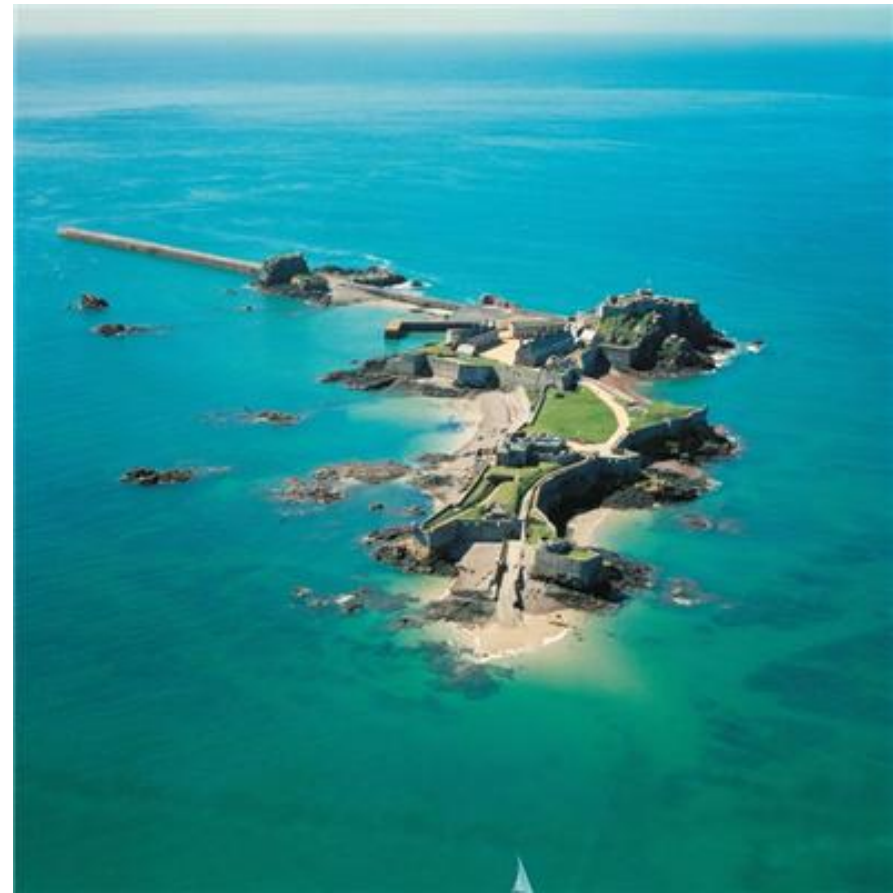
<sup>16</sup> Calculated as a percentage of actual income from paying admissions



## Elizabeth Castle

- Elizabeth Castle is surrounded by the sea for seven hours out of every twelve. This has presented the greatest challenge to Jersey Heritage in recent years.
- We have previously discussed the issues related to access to the Castle, which eventually resulted in Jersey Heritage's acquisition of the ferry service in 2008 and the direct operation of the service. This has had major financial implications for the Trust which are evident in the pro-forma net cost summary for the Castle, as shown below.
- Little or no investment has been made in the Elizabeth Castle site in recent years and maintenance spend has typically been at a level which is less than the attributable contribution into the Ancient Monument Fund, which was established as part of the agreement with the States when the Trust took on the operation of both castles, which preceded the usufruct.
- The responsibilities of the Trust under the usufruct, which came into force on 1 January 1997, are as follows:
  - Long term operation, maintenance and development of the castles
  - Ensure public access to the castles at reasonable times
  - Preserve the historical and archaeological integrity of the sites for future generations
  - Use best endeavours to cause an appropriate passenger transport service to Elizabeth Castle to be maintained

### *Aerial view of Elizabeth Castle*



*Jersey Heritage website*

- Any termination of the usufruct shall apply to both castles, so without a renegotiation of this agreement, which requires Royal Court approval, the Trust would need to cease running both castles if one became unviable. This therefore may not be desirable given the income and cash generating ability of Mont Orgueil.
- The Ancient Monuments Fund (“AMF”) was established when Jersey Heritage operated the sites, collecting admissions on behalf of the States. A proportion of revenues were set aside in the AMF to cover maintenance spend, the AMF itself being transferred to the Trust on the date of the usufruct. A percentage of admissions income has continued to be set aside within the AMF, although the cash has not been ring-fenced, as explained in Section 8.
- The percentage of admission income to be contributed to the AMF should be agreed annually between the Trust and the States. Whilst this was formerly an agreement with the Finance and Economics Committee, we understand that this would now be formalised between ESC and the Trust.
- Until 2008 the accounting adjustment being made to transfer funds to the AMF was at the agreed rate of 23% of admissions income. As of 1 January 2009, the level was reduced to 10%, although until recently there remained some uncertainty over whether this had been formally approved by the Minister for Education, Sport and Culture. As explained in Section 8, the AMF has not been fully cash backed for some time and although identified in accounting terms as a separate Fund, the cash related to past contributions had been spent to fund the operating activities of the Trust, which puts the maintenance of the Castle at risk in the event that emergency repairs were required. The “bail-out” grant from ESC at the end of 2009 reinstated the AMF.

### *Elizabeth Castle*



*Source: Jersey Heritage website*

- It is worth noting that JHT is not liable for costs relating to the castles that exceeds the balance on the AMF. In the event that it is necessary to expend more than was held in the AMF, then an application could be made to the States for additional funding.

### Pro-forma contribution / (cost) of Elizabeth Castle

- The site generates income from admissions, rentals and venue hire, although demand for its holiday let and event space has been steadily reducing in recent years.
- The admissions revenue trend is obscured by the changes in the operating model relating to the castle ferry during the period presented (admissions revenue is analysed in further detail later in this section), and it is also important to note that in 2007 the castle was not open to the public for the full season. We explain these issues in further detail below.
- The cost base of the site changed in 2007 when Jersey Heritage began to share the financial risk of the castle ferry service with the third party operator. The Trust incurred costs of £173,544 in 2007 for the ferry service which was offset by only £93,088 of revenue from ticket sales. The net cost was £80,456, and accounted for over 70% of the pro-forma net cost of £112,700 at Elizabeth Castle that year.
- The financial position worsened in 2008 after the Trust acquired and begun to directly operate the castle ferries. This resulted in increased staff costs, as a crew and driver were now on the payroll, operating costs and fuel which were much greater than had been anticipated and a depreciation charge reflecting usage of the assets (being the amphibious vehicles).
- The depreciation charge is not matched by the creation of a fund for future replacement, so a future problem is building as there is no way in which the Trust could build up sufficient cash to replace the amphibious vessels in a few years time, at the end of their useful economic life.

### Pro-forma contribution / (cost) – Elizabeth Castle

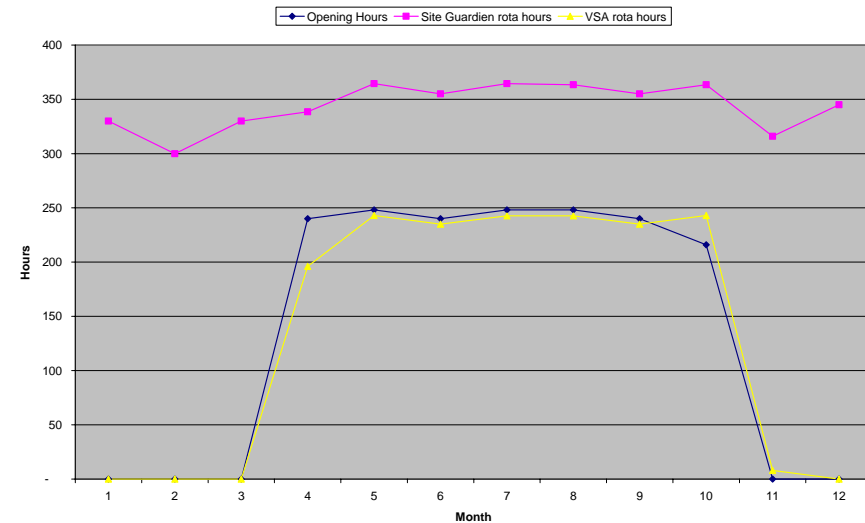
|                                       | FY 2006A         | FY 2007A         | FY 2008A         | 9M 2009A         |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | £                | £                | £                | £                |
| <b>Income</b>                         |                  |                  |                  |                  |
| Admissions income                     | 171,690          | 215,487          | 280,166          | 274,630          |
| Heritage Venues                       | 17,672           | 10,176           | 8,086            | 6,090            |
| Heritage Lets                         | 15,335           | 12,625           | 13,546           | 12,604           |
| Rental income - staff                 | 2,000            | 4,800            | 4,987            | 3,980            |
|                                       | <u>206,697</u>   | <u>243,088</u>   | <u>306,785</u>   | <u>297,304</u>   |
| <b>Expenses</b>                       |                  |                  |                  |                  |
| Site guardian staff                   |                  |                  |                  |                  |
| Visitor services staff                |                  |                  |                  |                  |
| Castle Ferries crew                   |                  |                  |                  |                  |
| Living History                        |                  |                  |                  |                  |
|                                       | (117,212)        | (123,552)        | (195,917)        | (149,058)        |
| Transfer to AMF                       | (39,489)         | (28,152)         | (64,438)         | (27,463)         |
| Causeway                              | -                | (2,817)          | (6,393)          | (2,774)          |
| Transport/vehicles - Elizabeth Castle | -                | (173,544)        | (131,337)        | (140,109)        |
| Depreciation                          | -                | -                | (41,052)         | (30,789)         |
| Direct costs – Venues                 | (1,273)          | (535)            | (1,077)          | (66)             |
| Direct costs – Lets                   | (5,176)          | (2,308)          | (4,116)          | (1,084)          |
| Site Team                             | (10,922)         | (14,727)         | (2,443)          | (2,067)          |
| Investment in concessions             | -                | -                | (18,806)         | (3,185)          |
| Heat, light and water                 | (11,939)         | (7,452)          | (3,144)          | (5,275)          |
| Security                              | (2,789)          | (1,987)          | (3,217)          | (1,883)          |
| Cleaning                              | (5,848)          | (643)            | (7,168)          | (4,876)          |
| Gardening                             | (4,880)          | (71)             | (3,679)          | (3,215)          |
|                                       | <u>(199,528)</u> | <u>(355,788)</u> | <u>(482,788)</u> | <u>(371,843)</u> |
| <b>Net contribution / (cost)</b>      | <b>7,169</b>     | <b>(112,699)</b> | <b>(176,004)</b> | <b>(74,539)</b>  |

Source: BDO analysis

### Elizabeth Castle staffing

- Of the total direct costs of the Castle’s operations, around 40% of the costs relate to staff. In the case of Elizabeth Castle, two permanent site guardians are employed, with one living on site.
- As at the Museum, the hours worked by site guardians exceeds the opening hours of the site by quite some way, as the chart opposite demonstrates. The seasonal opening hours at this site present the opportunity for a different staffing model (i.e. seasonal or part-time staff) (notwithstanding a number of other issues that may arise), and this is considered in detail in Section 12 on staff costs.
- As a seasonal business, we understand that effort is made to ensure that staff take annual leave at times convenient to the business.
- We are unable to assess the utilisation and effectiveness of the site guardians when the Castle is closed for the season (or indeed at other sites that are also seasonal opening), although we understand that management has experienced difficulties in controlling and monitoring the efficiency of site guardians when sites are closed to the public. Whilst this should be the primary responsibility of line management and the senior manager of the sites and collections function, it became apparent from our own discussions with the Directors that this function may not have been effective in the past. It is only now, when the Trust’s finances have reached crisis point, that senior management have recognised the need to maximise efficiencies throughout the year, even when those sites are closed.
- Plans are now under way to address this, but we believe that this is indicative of a need for the Directors and Board of Trustees to revisit the organisational and staffing structure and implement appropriate changes which may further contribute to cost savings.

### Site staff rota versus opening hours



Source: BDO working papers

- As noted elsewhere in this Report, for a small organisation there appears to be a very large number of budget holders. Whilst these responsibilities were delegated for reasons thought to benefit the Trust at the time, this may have had an adverse effect in terms of blurring the clear lines of responsibility for financial management, for example consideration of the role of site guardians in the closed season.
- As with the other sites, the VSA rota hours are closely aligned with the opening hours of the site which is as we would expect.

### Admissions revenue

- In 2007 the castle was only open for 110 of the intended 186 days, a loss of 41% of the revenue generating days. This is reflected in the total admission figures of circa 26,000, compared to in excess of 35,000 in 2008.
- This statistic appears to indicate that there is an underlying decline, despite the rise in admissions revenue from £215,000 in 2007 to £280,000 in 2008. The 9M 2009 figure is slightly lower than 2008, with Elizabeth Castle reporting a final income for the 2009 season of £299,000, a slight increase on 2008, reflecting the increase in ticket prices.
- As with other sites, the non-paying admissions have increased as a proportion of the total admissions.

### Admissions revenue and KPIs

|                                       | FY 2007A | FY 2008A<br>Draft | 9M 2009A |
|---------------------------------------|----------|-------------------|----------|
|                                       | £        | £                 | £        |
| <b>Revenue</b>                        |          |                   |          |
| Combined ferry and entrance           | n/a      | 216,135           | 222,996  |
| Entrance only                         | 122,399  | 60,333            | 49,742   |
| Ferry only                            | 93,088   | 3,698             | 1,892    |
| Total admissions income               | 215,487  | 280,166           | 274,630  |
| <b>Admission revenue per entrance</b> |          |                   |          |
| (average)                             | £8.22    | £ 7.68            | £ 8.17   |
| % (decrease) / increase               | N/a      | (7%)              | 6%       |
| <b>No. of entrances</b>               |          |                   |          |
| Paying                                | 23,876   | 32,872            | 27,494   |
| Non paying                            | 2,328    | 3,604             | 6,131    |
|                                       | 26,204   | 36,476            | 33,625   |
| <b>Percentage of entrances</b>        |          |                   |          |
| Paying %                              | 91%      | 90%               | 82%      |
| Non paying %                          | 9%       | 10%               | 18%      |
|                                       | 100%     | 100%              | 100%     |

Source: JHT management accounts and footfall statistics

### Pricing

- When we undertook our review only the Elizabeth Castle ferry-inclusive ticket at the proposed price of £11 (not shown in the table) for the 2010 season exceeds the current standard adult entrance price at either of the main competitor attractions, Durrell and the Jersey War Tunnels.
- It is proposed that ticket prices remain largely static for 2010 as a result of the need to maintain visitor numbers.
- Elizabeth Castle, by its nature, is an impressive site, however, its exhibits are old and we have been advised require investment, and the living history element is the main attraction (rather than static displays and interpretation). Delivering the programme of living history comes at a cost, but at such a large site is an effective way of attracting visitors.
- The estimated value of free admissions demonstrates the increase in non-paying admissions, which almost doubled from 2008 to 9M 2009.

### Ticket pricing structure

|                    | 2007  | 2008  | 2009  | 2010 - proposed |
|--------------------|-------|-------|-------|-----------------|
|                    | £     | £     | £     | £               |
| Adult              | 5.60  | 8.00  | 8.50  | 8.50            |
| Senior and student | 4.80  | 7.30  | 7.50  | 7.50            |
| Student            | n/a   | n/a   | 5.50  | 6.00            |
| Child (6-16)       | 4.80  | 5.00  | 5.50  | 6.00            |
| Family ticket      | 16.00 | 25.00 | 26.00 | 26.00           |
| Average            | 4.80  | 6.64  | 6.70  | 6.90            |

Source: JHT management accounts and footfall statistics

### Estimated value of free admissions (excluding members)

|                                   | FY 2007A | FY 2008A | 9M 2009A |
|-----------------------------------|----------|----------|----------|
|                                   | £        | £        | £        |
| Jersey senior citizens            | 1,133    | 1,285    | 2,235    |
| Jersey school children (under 18) | 2,395    | 4,410    | 5,236    |
| Other                             | 3,734    | 8,927    | 20,328   |
|                                   | 7,262    | 14,622   | 27,799   |

As a % of admissions income<sup>17</sup>                      3%                      5%                      10%

Source: JHT management accounts and footfall statistics

<sup>17</sup> Calculated as a percentage of actual income from paying admissions

## Mont Orgueil

- Mont Orgueil is also operated under the usufruct explained in the Elizabeth Castle section above.
- However, the Castle is the only one of the attractions to generate a positive contribution, thus helping the Trust to mitigate against the losses made at the other sites.
- This is, of course, for various reasons including the Castle being an appealing and convenient location; the ‘intrigue factor’ following its recent renovation, all of which means that the Castle would appear to need less in the way of static exhibits.
- Funding from the Tourism Development Fund of around £3.1m in 2000 enabled a full restoration of the Castle, requiring only a 6-month closure of the site between October 2005 and March 2006.
- The costs of the work exceeded expectations at the start of the project, and additional funding was transferred from the AMF in the amount of £440,000 in 2006 in order to complete the project.

## Mont Orgueil from Gorey Pier



*Jersey Heritage website*

### Proforma net contribution from Mont Orgueil

- Mont Orgueil is the only site to consistently generate a positive site contribution, which goes some way to offset the net cost of all the other sites.
- The restoration and refurbishment programme which began in the early 2000s was completed by March 2006, after only 6 months of closure of the site towards the end of the project.
- Whilst it is a large scale site it operates with a single site guardian, although two VSAs are required in peak season as a result of there being two entry points.
- The site also contributes significantly to the AMF given the contribution to the Fund is a percentage of the admissions income. As the Fund itself is not divided into specific sub-funds for each of the castles, the contributions from Mont Orgueil may provide subsidy to the costs of maintaining Elizabeth Castle in the longer term.
- The site is open all year round, albeit under reduced opening hours in the winter. It has been very popular for weddings, which is reflected in the steady growth shown in the Heritage Venues income stream. However, the competition for this type of event venue continues to grow stronger in the Island as a new venue becomes the latest fashion. Going into 2010 a major new venue has become available for this type of event, Radier Manor, which is likely to present a challenge to JHT in terms of maintaining the level of venue hire income.
- Despite being the most popular and visited of the Jersey Heritage sites, the issues surrounding catering provision have still affected Mont Orgueil. The profitability of any catering business based here is affected by the fact that it is a low footfall site in comparison to sites elsewhere (the 250,000 footfall rule of thumb) and also the location of the café inside the ticketed area of the site.

### Proforma net contribution – Mont Orgueil

|                           | FY 2006A         | FY 2007A         | FY 2008A         | 9M 2009A         |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | £                | £                | £                | £                |
| <b>Income</b>             |                  |                  |                  |                  |
| Admissions income         | 304,047          | 332,227          | 334,669          | 296,654          |
| Heritage Venues           | 20,241           | 32,325           | 45,160           | 45,431           |
|                           | <b>324,288</b>   | <b>364,552</b>   | <b>379,829</b>   | <b>342,085</b>   |
| <b>Expenses</b>           |                  |                  |                  |                  |
| Site guardians staff      |                  |                  |                  |                  |
| Visitor services staff    |                  |                  |                  |                  |
| Living History            |                  |                  |                  |                  |
|                           | (82,213)         | (84,573)         | (102,528)        | (70,428)         |
| Transfer to AMF           | (69,931)         | (76,412)         | (76,974)         | (29,665)         |
| Direct costs - Venues     | (8,158)          | (636)            | (1,714)          | (1,340)          |
| Site Team                 | (13,361)         | (5,828)          | (2,873)          | (685)            |
| Investment in concessions | -                | -                | (7,972)          | -                |
| Heat, light and water     | (4,446)          | (7,600)          | (6,354)          | (5,889)          |
| Security                  | (1,809)          | (2,914)          | (607)            | (839)            |
| Cleaning                  | (6,526)          | (7,454)          | (7,884)          | (5,062)          |
| Gardening                 | (7,112)          | (7,582)          | (6,295)          | (4,120)          |
|                           | <b>(193,556)</b> | <b>(192,999)</b> | <b>(213,201)</b> | <b>(118,028)</b> |
| <b>Net contribution</b>   | <b>130,732</b>   | <b>171,553</b>   | <b>166,628</b>   | <b>224,057</b>   |

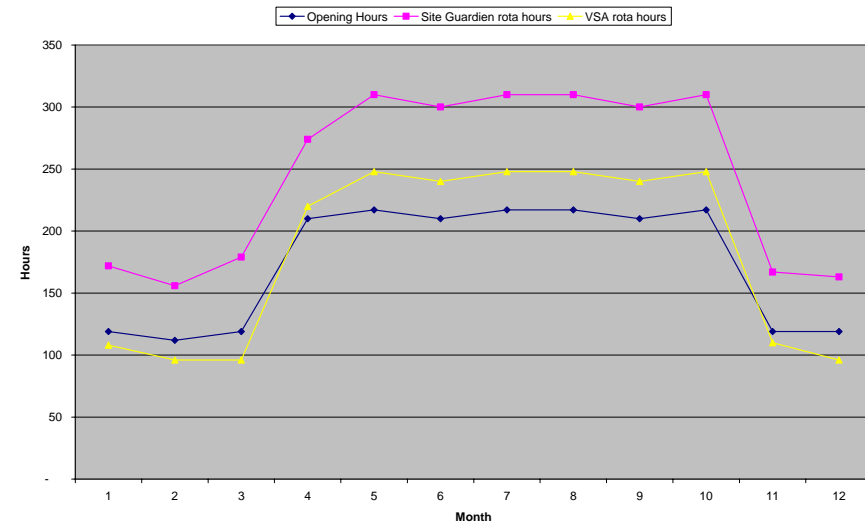
Source: BDO analysis



### Mont Orgueil staffing

- The pattern of rota hours for both VSAs and site guardians remains consistent throughout the year.
- It can be seen that site guardians are expected to cover front of house at times during off season opening. This was observed at Mont Orgueil when we visited the site as part of this review.
- Detailed comments about the provision of staff on sites are given in the staff costs section below.

### Site staff rota versus opening hours



Source: BDO analysis

### Admissions revenue

- The site is showing a gradual increase in the percentage of non-paying visitors (see table below), however, the average revenue per admittance in 2009 has increased by 5% from 2008.
- The paying proportion is still very good compared to the other Jersey Heritage sites, from a total footfall that is 33% greater than the next most visited site, Elizabeth Castle.

### Pricing

- Entrance prices at Mont Orgueil are the highest of the attractions, excluding the ferry-inclusive ticket at Elizabeth Castle, with ticket prices recorded in the table below.
- The upward trend between 2008 and 9M 2009 in the percentage value of free admissions is consistent with the shifting emphasis toward local visitors, as this is where memberships and gold and flash card admissions are recorded.

### Estimated value of free admissions

|   | FY 2007A      | FY 2008A<br>Draft | 9M 2009A      |
|---|---------------|-------------------|---------------|
|   | £             | £                 | £             |
| Jersey senior citizens                    | 5,929         | 4,879             | 3,902         |
| Jersey school children (under 18)         | 16,507        | 13,343            | 9,402         |
| Other                                     | 37,126        | 33,018            | 38,337        |
|   | <u>59,562</u> | <u>51,240</u>     | <u>51,641</u> |
| As a % of admissions income <sup>18</sup> | 18%           | 15%               | 17%           |

Source: JHT management accounts and footfall statistics

<sup>18</sup> Calculated as a percentage of actual income from paying admissions

### Admissions revenue and KPIs

|  | FY 2007A      | FY 2008A<br>Draft | 9M 2009A      |
|--|---------------|-------------------|---------------|
|  | £             | £                 | £             |
| <b>Revenue</b>                           |               |                   |               |
| Admissions income                        | 332,227       | 334,669           | 296,654       |
| Admission revenue per entrance (average) | £ 7.00        | £ 6.82            | £ 7.13        |
| % (decrease) / increase                  | n/a           | (3%)              | 5%            |
| <b>No. of entrances</b>                  |               |                   |               |
| Paying                                   | 37,350        | 38,300            | 31,459        |
| Non paying                               | 10,137        | 10,805            | 10,164        |
|  | <u>47,487</u> | <u>49,105</u>     | <u>41,623</u> |
| <b>Percentage of entrances</b>           |               |                   |               |
| Paying %                                 | 79%           | 78%               | 76%           |
| Non paying %                             | 21%           | 22%               | 24%           |
|  | <u>100%</u>   | <u>100%</u>       | <u>100%</u>   |

Source: JHT management accounts and footfall statistics

### Ticket pricing structure

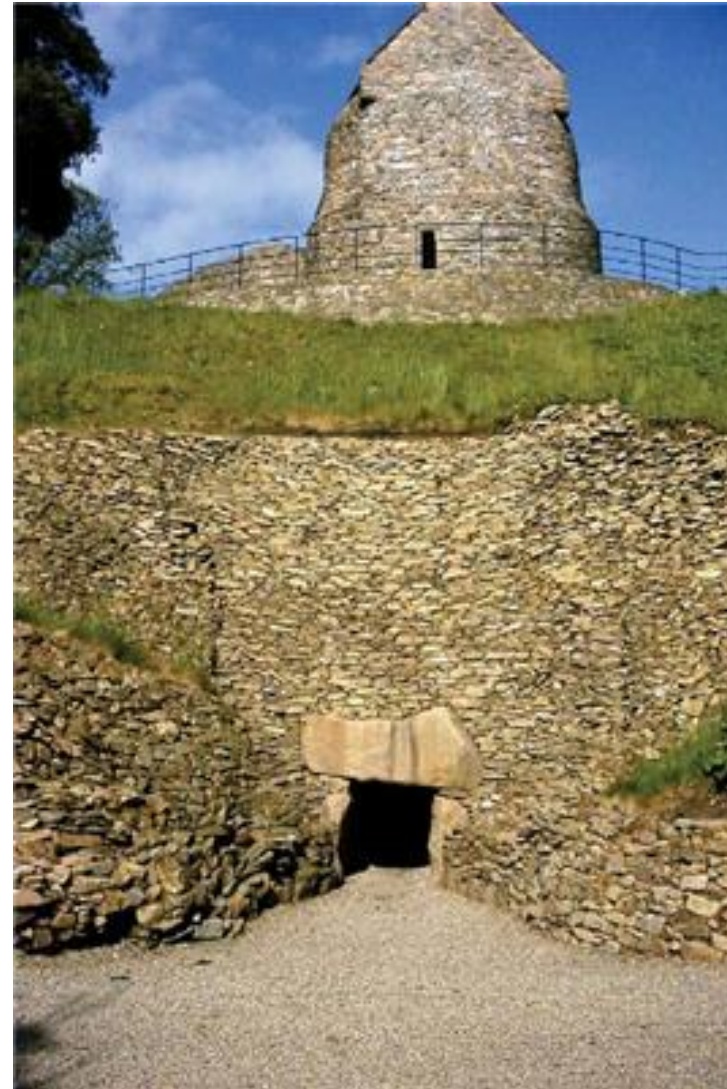
|                    | 2007        | 2008        | 2009        | 2010 -<br>proposed |
|--------------------|-------------|-------------|-------------|--------------------|
|                    | £           | £           | £           | £                  |
| Adult              | 9.00        | 9.30        | 9.50        | 10.00              |
| Senior and student | 8.20        | 8.50        | 8.50        | 9.00               |
| Student            | n/a         | n/a         | 5.60        | 6.00               |
| Child (6-16)       | 8.20        | 5.50        | 5.60        | 6.00               |
| Family ticket      | 26.20       | 26.00       | 27.00       | 29.00              |
| Average            | <u>7.99</u> | <u>7.45</u> | <u>7.19</u> | <u>7.65</u>        |

Source: JHT management accounts and footfall statistics

## La Hougue Bie

- La Hougue Bie is owned by the Societe Jersiaise and operated by Jersey Heritage under a management agreement.
- The attraction is centred on the impressive Neolithic burial mound and chapel.
- The exhibits are limited and have not been refreshed for many years. Living history does not add anything to the site so does not represent an additional running cost.
- The site is of significance for the archaeological section of the Societe, which maintains a workshop space at the site to facilitate its research.

## La Hougue Bie Chapel and Burial Mound



Source: Jersey Heritage website

### Proforma net cost of La Hougue Bie

- The site represents a net cost to the Trust albeit not as significant as some of the other attractions.
- Despite increased admissions revenues in 2008 of around 36%, there was also an increase in expenses which more than offset any increase in revenues, which resulted in an additional £14,000 loss compared to 2007.
- Site Team expenses increased significantly in 2008 when £12,000 was spent on window replacement and other significant costs arose such as works to guttering and the toilet block.

### Admissions revenue

- Modest admissions revenues at La Hougue Bie are reflective of the demand for that site, the more limited appeal and smaller scale than, for example, the two castles.
- The site has managed to generate increases in the average revenue per admission despite a falling proportion of paying visitors. This implies that the visitors paying full price admission is rising.

### Proforma net cost – La Hougue Bie

|                        | FY 2006A        | FY 2007A        | FY 2008A        | 9M 2009A        |
|------------------------|-----------------|-----------------|-----------------|-----------------|
|                        | £               | £               | £               | £               |
| <b>Income</b>          |                 |                 |                 |                 |
| Admissions income      | 52,361          | 60,263          | 81,867          | 58,402          |
| <b>Expenses</b>        |                 |                 |                 |                 |
| Site guardian staff    |                 |                 |                 |                 |
| Visitor services staff |                 |                 |                 |                 |
|                        | (62,476)        | (65,347)        | (74,325)        | (54,293)        |
| Site Team              | (15,170)        | (10,660)        | (34,453)        | (6,534)         |
| Heat, light and water  | (8,930)         | (5,631)         | (8,111)         | (3,907)         |
| Security               | (507)           | (580)           | (688)           | (775)           |
| Cleaning               | (5,185)         | (5,599)         | (6,124)         | (4,310)         |
|                        | (92,268)        | (87,817)        | (123,701)       | (69,821)        |
| <b>Net cost</b>        | <b>(39,907)</b> | <b>(27,554)</b> | <b>(41,834)</b> | <b>(11,419)</b> |

Source: BDO working papers

### Admissions revenue and KPIs

|  | FY 2007A | FY 2008A | 9M 2009A |
|--|----------|----------|----------|
|  | £        | £        | £        |
| Admissions income                        | 60,263   | 81,867   | 58,402   |
| Admission revenue per entrance (average) | £3.85    | £4.15    | £4.34    |
| % increase                               | n/a      | 8%       | 5%       |
| <b>No. of entrances</b>                  |          |          |          |
| Paying                                   | 10,925   | 14,128   | 8,774    |
| Non paying                               | 4,738    | 5,577    | 4,671    |
|  | 15,663   | 19,705   | 13,445   |
| <b>% of entrances</b>                    |          |          |          |
| Paying %                                 | 70%      | 72%      | 65%      |
| Non paying %                             | 30%      | 28%      | 35%      |
|  | 100%     | 100%     | 100%     |

Source: JHT management accounts and footfall statistics

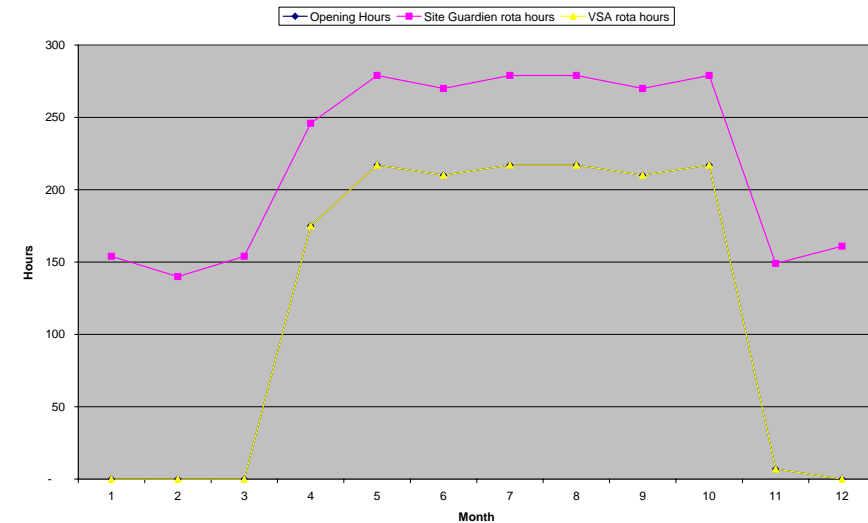
### La Hougue Bie staffing

- The VSA rota hours track the site opening hours exactly and site guardians follow a similar pattern throughout the year.
- The site is closed between November and Easter in each year and site guardians remain responsible for caretaking at the sites during the closed period.

### Pricing

- The pricing structure has seen ticket prices remain significantly lower than the other sites. The location of the site means it is more likely to be sought out by a visitor rather than stumbled upon.
- The estimated ticket value of free admissions is lower than at all other sites, with the exception of Elizabeth Castle. This is as a result of the site being the least visited, with footfall of only 8% of the total footfall to Jersey Heritage Sites.

### Site staff rota versus opening hours



Source: BDO working papers

### Estimated ticket value of free admissions

|   | FY 2007A      | FY 2008A<br>Draft | 9M 2009A      |
|---|---------------|-------------------|---------------|
|   | £             | £                 | £             |
| Jersey senior citizens                    | 1,267         | 2,532             | 1,587         |
| Jersey school children (under 18)         | 4,325         | 5,448             | 4,011         |
| Other                                     | 11,899        | 12,185            | 11,988        |
|   | <u>17,491</u> | <u>20,165</u>     | <u>17,586</u> |
| As a % of admissions income <sup>19</sup> | 29%           | 25%               | 30%           |

Source: JHT management accounts and footfall statistics

### Ticket pricing structure

|                    | 2007        | 2008        | 2009        | 2010 -<br>proposed |
|--------------------|-------------|-------------|-------------|--------------------|
|                    | £           | £           | £           | £                  |
| Adult              | 5.60        | 6.50        | 6.70        | 6.70               |
| Senior and student | 4.80        | 6.00        | 6.20        | 5.70               |
| Student            | n/a         | n/a         | 4.20        | 4.20               |
| Child (6-16)       | 4.80        | 4.00        | 4.20        | 4.20               |
| Family ticket      | 16.00       | 20.00       | 20.00       | 19.50              |
| Average            | <u>4.80</u> | <u>5.38</u> | <u>5.26</u> | <u>5.14</u>        |

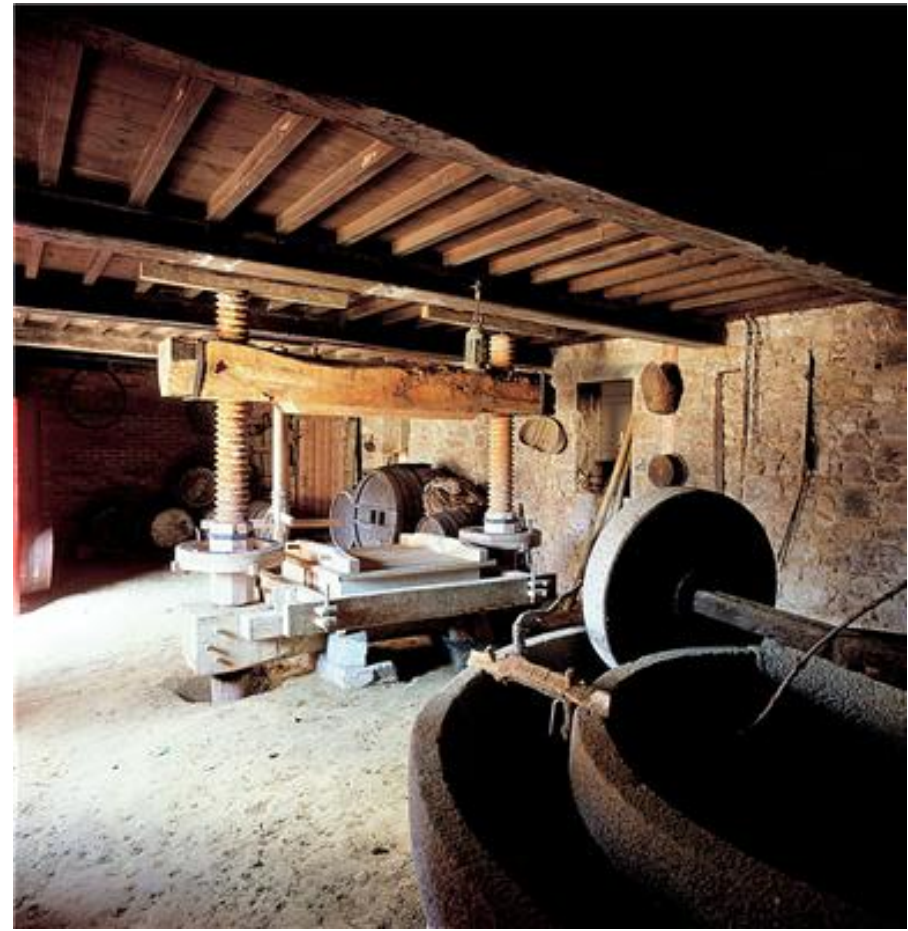
Source: JHT management accounts and footfall statistics

<sup>19</sup> Calculated as a percentage of actual income from paying admissions

### Hamptonne Country Life Museum

- Hamptonne has been operated by Jersey Heritage since 1993, when an agreement between the National Trust for Jersey, the Societe Jersiaise and Jersey Heritage was approved in respect of the management of the site.
- Hamptonne is owned by the National Trust for Jersey, although its restoration, which was completed in 1993 after around four years work, was funded by the Societe Jersiaise. This is the only project of any significance undertaken at any site operated by Jersey Heritage that has not been funded by the States.
- The agreement, in general terms, obliges Jersey Heritage to open and maintain the site and entitles it to the admissions revenues generated as a result. The members of the National Trust for Jersey as well as those of the Societe Jersiaise are entitled to free entrance.
- It provides that further restoration of the site is the responsibility of Societe Jersiaise, although we understand that there is a separate agreement between National Trust for Jersey and Societe Jersiaise.
- The agreement does not include any provisions for termination but we understand from management that it is simply an operating agreement and could be terminated, with no consequences or obligations on the Trust, at any time.
- As explained elsewhere in this Report, the Societe Jersiaise appears to also be experiencing financial constraints and would not appear to be in a position to operate the site directly if Jersey Heritage were unable or unwilling to continue to operate it.

### Traditional Cider Press at Hamptonne



*Source: Jersey Heritage website*

### Proforma net cost of Hamptonne

- The operation of Hamptonne represents a net cost to the Trust on an annual basis, which both management and the Trustees had been aware of despite the existing financial reporting framework not providing information in this form.
- Hamptonne's admissions revenues are low compared to its footfall as a result of the large proportion of local visitors obtaining free admission.
- This site is particularly popular for families, with the children using their Flash Cards to enter and the parents obtaining memberships (for which the revenue is presented centrally and not attributed to sites), which do not result in single ticket admissions.
- Admissions revenues have been fairly static in 2007 and 2008, but the attractiveness of the site for weddings or other functions (being the Heritage Venue income) has fallen to almost nothing in 9M 2009.
- During the same period the direct costs of operating the site have increased, mainly because the site is fairly staff intensive as a result of the requirement for living history and caring for the animals.
- Staff costs have increased in each period, as would typically be expected based on our understanding of the basis of wage reviews in the Trust, in particular as a result of the contractual cost of living increase and annual increments, both of which are discussed in detail in Section 12.

### Proforma net cost – Hamptonne

|                           | FY 2006A         | FY 2007A         | FY 2008A         | 9M 2009A         |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | £                | £                | £                | £                |
| <b>Income</b>             |                  |                  |                  |                  |
| Admissions income         | 67,116           | 59,918           | 61,708           | 50,160           |
| Heritage Venues           | 11,889           | 6,696            | 9,990            | 322              |
|                           | <b>79,005</b>    | <b>66,614</b>    | <b>71,698</b>    | <b>50,482</b>    |
| <b>Expenses</b>           |                  |                  |                  |                  |
| Site guardian staff       |                  |                  |                  |                  |
| Visitor services staff    |                  |                  |                  |                  |
| Animal carer              |                  |                  |                  |                  |
| Living History            |                  |                  |                  |                  |
|                           | (86,095)         | (86,935)         | (97,040)         | (67,769)         |
| Direct expenses - Venues  | (884)            | (137)            | (1,003)          | (783)            |
| Site Team                 | (23,399)         | (19,916)         | (29,048)         | (18,959)         |
| Investment in concessions | -                | -                | -                | (4,720)          |
| Heat, light and water     | (8,655)          | (6,780)          | (8,027)          | (5,907)          |
| Security                  | (2,100)          | (1,339)          | (1,098)          | (1,793)          |
| Cleaning                  | (5,357)          | (5,613)          | (6,125)          | (4,145)          |
| Gardening                 | (4,879)          | (4,071)          | (3,680)          | (2,663)          |
|                           | <b>(131,369)</b> | <b>(124,791)</b> | <b>(146,021)</b> | <b>(106,739)</b> |
| <b>Net cost</b>           | <b>(52,364)</b>  | <b>(58,177)</b>  | <b>(74,323)</b>  | <b>(56,257)</b>  |

Source: BDO analysis

### Hamptonne staffing

- VSA rota hours and site opening hours are identical at this site, which shows an intention to operate this at maximum efficiency when planning VSA staff time.
- Site guardian rota hours exceed the opening hours by a similar margin to the other sites with only a single guardian (all except Elizabeth Castle).
- As at la Hougue Bie, the site is closed between November and Easter in each year and site guardians remain responsible for caretaking at the sites throughout the closed period.

### Pricing

- The pricing structure is the same as at La Hougue Bie and has seen ticket prices remain significantly lower than the other sites which particularly reflects its location which means it is more likely to be sought out by a visitor rather than stumbled on.

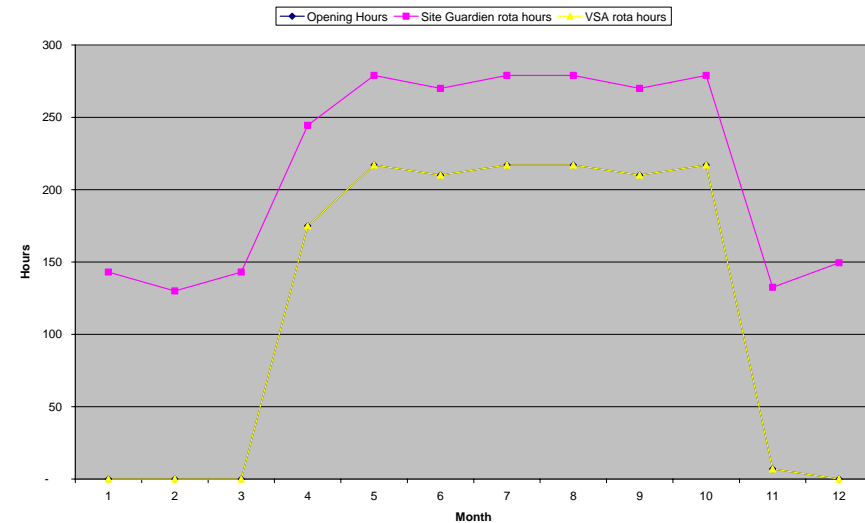
### Estimated value of free admissions

|   | FY 2007A      | FY 2008A<br>Draft | 9M 2009A      |
|---|---------------|-------------------|---------------|
|   | £             | £                 | £             |
| Jersey senior citizens                    | 4,723         | 5,520             | 4,414         |
| Jersey school children (under 18)         | 7,997         | 7,696             | 5,557         |
| Other                                     | 18,398        | 22,150            | 19,525        |
|   | <u>31,118</u> | <u>35,366</u>     | <u>29,496</u> |
| As a % of admissions income <sup>20</sup> | 52%           | 57%               | 59%           |

Source: JHT management accounts and footfall statistics

<sup>20</sup> Calculated as a percentage of actual income from paying admissions

### Site staff rota versus opening hours



Source: BDO working papers

### Ticket pricing structure

|                    | 2007        | 2008        | 2009        | 2010 -<br>proposed |
|--------------------|-------------|-------------|-------------|--------------------|
|                    | £           | £           | £           | £                  |
| Adult              | 5.60        | 6.50        | 6.70        | 6.70               |
| Senior and student | 4.80        | 6.00        | 6.20        | 5.70               |
| Student            | n/a         | n/a         | 4.20        | 4.20               |
| Child (6-16)       | 4.80        | 4.00        | 4.20        | 4.20               |
| Family ticket      | 16.00       | 20.00       | 20.00       | 19.50              |
| Average            | <u>4.80</u> | <u>5.38</u> | <u>5.26</u> | <u>5.14</u>        |

Source: JHT management accounts and footfall statistics



### Admissions revenue

- The site has seen a significant decrease in the average revenue per admission since 2007, as a result of the shift towards non-paying visitors, accessing the site using Flash Cards, membership cards or other memberships (both Societe Jersiaise and National Trust for Jersey memberships).

### Admissions revenue and KPIs

|   | FY 2007A | FY 2008A<br>Draft | 9M 2009A |
|---|----------|-------------------|----------|
| <b>Income</b>                               | £        | £                 | £        |
| Admissions income                           | 59,918   | 61,708            | 50,160   |
| Admission revenue per entrance<br>(average) | £3.83    | £2.95             | £3.19    |
| % (decrease) / increase                     | n/a      | (23%)             | 8%       |
| <b>No. of entrances</b>                     |          |                   |          |
| Paying                                      | 10,925   | 11,219            | 7,784    |
| Non paying                                  | 4,738    | 9,674             | 7,952    |
|   | 15,663   | 20,893            | 15,736   |
| <b>Percentage of entrances</b>              |          |                   |          |
| Paying %                                    | 70%      | 54%               | 49%      |
| Non paying %                                | 30%      | 46%               | 51%      |
|   | 100%     | 100%              | 100%     |

Source: JHT management accounts and footfall statistics

## Heritage Lets

- Heritage Lets was formed as a discrete business unit after the completed development of certain of Jersey's historic properties under a joint venture with the Tourism Development Fund, Jersey Property Holdings and Transport and Technical Services.
- Under agreements with Jersey Property Holdings, the owner of the buildings, Jersey Heritage is entitled to retain 50% of the income generated from renting out these properties to both holidaymakers and locals.
- Whilst the income streams and associated costs are included in the summary of trading activities on page 91, we have also presented the performance of the business unit separately on the following pages as additional information, which helps in understanding the overall profitability of this particular business stream.
- The Heritage Lets business unit is a more discrete activity than the attractions, and it is more straightforward to identify the direct costs of operation.
- Unlike the sites, which operate on a far larger scale and are therefore more management intensive, this activity operates with a co-ordinator dealing with bookings and a site guardian overseeing security. The role of the guardian is limited due to the infrequent changeover days (as compared to site opening), although overtime may arise as there is a need for a guardian to be on call for guest emergencies out of hours.
- All cleaning, laundry and similar is undertaken by third parties and there are clearly identifiable utilities attributable to each individual Heritage Let site.

### Barge Aground at St Ouen – one of the Heritage Lets properties



Source: Jersey Heritage website

- Like Mont Orgueil, Heritage Lets generate a positive gross profit contribution towards the fixed costs of the organisation and also scores well in terms of providing public access to heritage buildings (through its rental activity) at reasonable prices.
- The Trust has been conscious of this objective when considering the specification of the properties for holiday lets and the resulting pricing structure. The properties are good quality but not overly luxurious.
- From our high-level review of the pricing on the website, the properties do not appear to be cheaply priced, but at the same time would be widely accessible, with prices comparable to alternatives on the Island.
- To date the sites have not been used for long winter lets, which could be a future consideration in order to maximise the revenues, depending on the low-season occupancy rates.
- The table opposite is presented to provide additional information and to demonstrate the improving performance since the launch of the activity. There are now 10 sites under management, including 3 stone tents.
- The net cost shown in 2008 appears to be an anomaly and was caused by higher than normal staff costs as a result of temporary staff.
- The net contribution / cost in each review period also reflect the 50% provision to the F&T Fund.

***Proforma net contribution / (cost) – Heritage Lets***

|                                | FY 2006A        | FY 2007A        | FY 2008A         | 9M 2009A         |
|--------------------------------|-----------------|-----------------|------------------|------------------|
| <b>Letting fees</b>            |                 |                 |                  |                  |
| Elizabeth Castle               | 15,335          | 12,625          | 13,546           | 12,604           |
| Barge Aground                  | 11,657          | 24,921          | 26,215           | 27,695           |
| Fort Leicester                 | 15,665          | 22,006          | 25,389           | 29,985           |
| Radio Tower                    | 1,424           | 32,951          | 40,059           | 43,621           |
| L'Etaquerel Fort               | -               | 1,963           | 4,379            | 3,055            |
| La Crete Fort                  | 639             | 12,543          | 18,473           | 24,518           |
| Seymour Tower                  | 180             | 2,250           | 9,925            | 9,955            |
| Lewis Tower                    | -               | -               | -                | 1,788            |
| Archirondel                    | -               | -               | -                | 2,666            |
|                                | <b>44,900</b>   | <b>109,259</b>  | <b>137,986</b>   | <b>155,887</b>   |
| <b>Direct expenses</b>         |                 |                 |                  |                  |
| Elizabeth Castle               | (5,176)         | (2,308)         | (4,116)          | (1,084)          |
| Forts & Towers:-               |                 |                 |                  |                  |
| Forts & Towers Fund            | -               | (48,317)        | (62,912)         | (71,642)         |
| Caretaking                     | (1,577)         | (1,378)         | (2,843)          | (1,918)          |
| Sub-contractors                | (12,366)        | (8,805)         | (9,431)          | (7,897)          |
| Heat light and water           | (1,487)         | (7,123)         | (10,295)         | (7,261)          |
| Marketing                      | (5,341)         | (1,811)         | (9,532)          | (15,298)         |
| Consumables                    | (5,397)         | (2,501)         | (2,865)          | (1,119)          |
| Other                          | (70)            | -               | (1,726)          | (6,315)          |
|                                | <b>(31,414)</b> | <b>(72,243)</b> | <b>(103,720)</b> | <b>(112,534)</b> |
| <b>Gross profit</b>            |                 |                 |                  |                  |
| Elizabeth Castle               | 10,159          | 10,317          | 9,429            | 11,520           |
| Forts & Towers                 | 3,327           | 26,698          | 24,836           | 31,833           |
|                                | <b>13,486</b>   | <b>37,016</b>   | <b>34,266</b>    | <b>43,353</b>    |
| Estimated staff costs          | (5,159)         | (30,606)        | (46,409)         | (29,239)         |
| <b>Net contribution/(cost)</b> | <b>8,327</b>    | <b>6,410</b>    | <b>(12,143)</b>  | <b>14,114</b>    |

Source: BDO working papers

- Total revenue exceeded budget in each of the periods presented, and for 2009 this had been achieved well before the end of the year and before accounting for the revenues from the sites over the Christmas and New Year period, when all were fully booked.
- The average revenue per night increased by 14% from 2007 to 2008, although the introduction of additional stone tents to the Heritage Lets portfolio in 2009, which are priced lower than the properties with full amenities, resulted in a slight decline in 2009.
- Occupancy rates for the holiday lets have been around 50% in 2008 and 9M 2009, which we understand to be comparable with English Heritage lets. However this is far lower than the rates achieved at Samares Manor (which shared information with Jersey Heritage about its income, expenses and occupancy rates).
- Occupancy was 83% in high season 2009 but falls to 30% in low season.
- Many holiday let businesses use longer term arrangements in the winter resulting in a more consistent income stream in the off season months, when cash flow generation is at its lowest. This type of arrangement is not as expensive to operate as it is possible to pass on utility bills to the tenant.
- We acknowledge that implementing a similar strategy is unlikely to be straightforward for the Heritage Lets particularly given that many of the sites are remote, but additional research could be undertaken into the possibilities when exploring whether the assets can be further exploited for income generation.

#### Revenues and nights booked

|                           | FY 2007A | FY 2008A<br>Draft | 9M 2009A <sup>21</sup> |
|---------------------------|----------|-------------------|------------------------|
| Total revenue (£)         | 109,259  | 137,986           | 155,887                |
| Nights booked             | 811      | 896               | 1,085                  |
| Average revenue per night | £135     | £154              | £144                   |

*Source: JHT management accounts and footfall statistics*

#### Occupancy rates

|                                 | FY 2007A | FY 2008A<br>Draft | 9M 2009A |
|---------------------------------|----------|-------------------|----------|
| All sites excluding stone tents | 64%      | 54%               | 51%      |
| Stone tents only                | n/a      | 9%                | 14%      |

*Source: JHT management accounts and footfall statistics*

<sup>21</sup> Note that bookings information for 2009 was prepared by Jersey Heritage based on current data available around Mid-November 2009. A wholly accurate revenue per night figures will be available only after full year figures for both income and bookings have been reported.

- It is worth noting that there is some ambiguity in the practical application of the agreement between Jersey Heritage and Property Holdings in respect of the proportion of rental income to be set aside in the Forts and Towers Fund. We understand that Jersey Heritage have sought to clarify this with Property Holdings, which has not led to any formal amendments or changes thus far.
- The provisions in the agreement states that the revenue generated from the letting of the sites should be applied as follows:
  - First to all expenses relating to the maintenance and management of the sites; and
  - Thereafter, JHT to retain a management charge of 12.5% of gross revenues.
- The remaining amount represents the retained profit from the operation and it was intended that a reserve from this retained profit would be agreed between the Trust and Property Holdings each year. Any surplus of retained profit over the agreed reserve could be applied towards the refurbishment of additional sites.
- We understand that since the inception of the project an accounting adjustment has been made to set aside 50% of the revenues in the F&T Fund, in agreement with Property Holdings. This has been done without formally allocating a 12.5% management charge to the Trust's unrestricted fund, and also without spending any funds on the refurbishment of additional properties.
- The table opposite is intended to compare the result of the Forts and Towers activity applying the 12.5% management charge which Jersey Heritage are entitled to, with the actual results recorded in the financial statements.

***Heritage Lets performance analysis***

|  | FY 2006A | FY 2007A | FY 2008A | 9M 2009A |
|--|----------|----------|----------|----------|
| <b>Letting fees</b>                                |          |          |          |          |
| Barge Aground                                      |          |          |          |          |
| Fort Leicester                                     |          |          |          |          |
| Radio Tower  |          |          |          |          |
| L'Etaquerel Fort                                   |          |          |          |          |
| La Crete Fort                                      |          |          |          |          |
| Seymour Tower                                      |          |          |          |          |
| Lewis Tower  |          |          |          |          |
| Archirondel  |          |          |          |          |
|  | 29,565   | 96,635   | 124,440  | 143,286  |
| <b>Direct expenses</b>                             |          |          |          |          |
| Staff costs  |          |          |          |          |
| Caretaking   |          |          |          |          |
|  | (6,736)  | (31,984) | (49,252) | (31,157) |
| Sub contractors                                    | (12,366) | (8,805)  | (9,431)  | (7,897)  |
| Heat light and water                               | (1,487)  | (7,123)  | (10,295) | (7,261)  |
| Marketing  | (5,341)  | (1,811)  | (9,532)  | (15,298) |
| Consumables  | (5,397)  | (2,501)  | (2,865)  | (1,119)  |
| Other  | (70)     | -        | (1,727)  | (6,315)  |
|  | (31,397) | (52,224) | (83,102) | (69,047) |
| <b>Gross (loss)/profit</b>                         | (1,832)  | 44,411   | 41,338   | 74,239   |
| JHT management charge of 12.5%                     | (3,696)  | (12,079) | (15,551) | (17,911) |
| <b>Net (loss)/profit</b>                           | (5,528)  | 32,332   | 25,787   | 56,328   |
| Amount actually transferred to Forts & Towers fund | -        | (48,317) | (62,912) | (71,642) |
| Difference   | n/a      | (15,995) | (37,125) | (15,314) |

Source: BDO analysis

- This shows that the transfer of an amount equating to 50% of income to the Forts and Towers fund has exceeded the amount that would have arisen if the management charge had been effected and the residual, being the retained profit for the Heritage Lets activity, been transferred to the Fund.
- An additional amount of between £15,000 and £37,000 would have been reported in the Unrestricted Fund performance (either increasing the reported surplus or decreasing the reported deficit) in each year presented.
- The change in treatment would not have affected the cash flow position of the Trust and would have had a positive impact on the reported accounting performance only.
- We should, however, note the potential limitations in the accuracy of this analysis because the original agreement is not explicit about the allocation of costs, and it may be that the expenses permitted to be offset would be larger or smaller than the expenses extracted from the Trust's accounting records and included in the table above. These may include allocations of central costs or senior management time, which would increase the reported expenses and decrease the residual amount generated from the project. The detail would need to be agreed with Property Holdings before any changes should be implemented.
- The management agreement was entered into for five years, and is deemed to automatically renew unless either of the parties gives notice. Jersey Heritage also has the right of refusal to manage any individual site proposed for refurbishment in the event it may not have the resource to operate it.

## Heritage Venues

- Heritage Venues is also branded as an individual business unit, however, it is also a relevant income stream when looking at the performance of each site and has been included in the pro-forma cost or contribution of each site.
- The financial information presented here is for information only and does not form part of our pro-forma site and trading analysis, which also includes the transactions related to Heritage Venues.
- Heritage Venues' "cash cow" is Mont Orgueil, which generates the largest income as a result of the popularity of the site for weddings. This market is "fickle" and led by changing fashions, so whilst Mont Orgueil has been successful of late, it would be prudent to plan for this to be placed under additional pressure as competition grows. This is likely to arise from new venues such as Radier Manor, which has recently announced it will open its grounds for weddings and other events from 2010.

### Medieval Great Hall at Mont Orgueil



Source: Jersey Heritage website

- Venue income has remained largely consistent over the period with the increased popularity of Mont Orgueil (after its refurbishment) offsetting the decline in popularity of other sites, such as Elizabeth Castle, where venue hire has fallen by more than 50% between 2006 and 9M 2009.
- There are very few direct expenses associated with venue hire; all catering arrangements are made with third parties (such as the Museum Brasserie or external caterers for wedding parties).
- A number of the venues provide meeting rooms for corporate use, although the lack of investment in the Museum site means that the facilities are becoming less popular in an increasingly competitive market. For example, the Oules Room was once the only venue of its type in St Helier but there are now a number of alternatives.
- An employee is responsible for the co-ordination of this activity, and the relevant attributable cost is represented in the table, along with marketing costs where they are separately identifiable in the financial information.
- The activity therefore generates a positive contribution, which is to be expected where facilities already “operated” within the other activities undertaken are available for hire to the public. There are minimal incremental costs of allowing rooms or space to host events, and at the historical sites such as Mont Orgueil, weddings and other events take place when the sites are open to the visiting public so there are no opportunity costs (in the form of other lost revenues) to consider.

**Proforma net contribution – Heritage Venues**

|                               | FY 2006A      | FY 2007A      | FY 2008A      | 9M 2009A      |
|-------------------------------|---------------|---------------|---------------|---------------|
|                               | £             | £             | £             | £             |
| <b>Venue hire income</b>      |               |               |               |               |
| Oules Room/Museum             |               |               |               |               |
| Joan Stevens Room / Hamptonne |               |               |               |               |
| Rose Room / Archive           |               |               |               |               |
| Mont Orgueil                  |               |               |               |               |
| Elizabeth Castle              |               |               |               |               |
| Other                         |               |               |               |               |
|                               | 91,290        | 96,248        | 98,359        | 89,449        |
| <b>Direct expenses</b>        |               |               |               |               |
| Oules Room/Museum             |               |               |               |               |
| Joan Stevens Room             |               |               |               |               |
| Rose Room / Archive           |               |               |               |               |
| Mont Orgueil                  |               |               |               |               |
| Elizabeth Castle              |               |               |               |               |
| Other                         |               |               |               |               |
|                               | (16,931)      | (4,177)       | (9,613)       | (5,275)       |
| <b>Gross profit</b>           |               |               |               |               |
| Oules Room                    |               |               |               |               |
| Joan Stevens Room             |               |               |               |               |
| Rose Room                     |               |               |               |               |
| Mont Orgueil                  |               |               |               |               |
| Elizabeth Castle              |               |               |               |               |
| Other                         |               |               |               |               |
|                               | 74,359        | 92,071        | 88,745        | 84,174        |
| Estimated staff costs         | -             | (21,534)      | (33,018)      | (28,529)      |
| Marketing                     | -             | -             | (10,621)      | (3,381)       |
| <b>Pro-forma contribution</b> | <b>74,359</b> | <b>70,537</b> | <b>45,106</b> | <b>52,264</b> |

Source: BDO working papers



- The number of events held at heritage sites has remained broadly consistent during the period presented, but Jersey Heritage has been able to grow its popularity for weddings. This will be partly as a result of external trends, but also through additional marketing spend to feature in wedding magazines and similar.
- Whilst there has been a substantial increase in the number of weddings held, of 50% between 2008 and 9M 2009, the average revenue per event has fallen by 20%. This is an unexpected trend because weddings generate higher rates than certain other events, such as meetings which start at a rate of £115, although we note that the comparison is not wholly accurate until full year figures for both bookings and revenues have been reported (because the bookings statistics may include those for which revenue had not yet been recognised at 30 September 2009).
- As well as generating a positive contribution, this activity is important in helping Jersey Heritage to deliver objectives related to access, and accounts for around 7% of total footfall to sites.

### *Revenues and KPIs*

|                             | FY 2007A | FY 2008A<br>Draft | 9M 2009A <sup>22</sup> |
|-----------------------------|----------|-------------------|------------------------|
| <b>Event bookings</b>       |          |                   |                        |
| Weddings                    |          |                   |                        |
| Meetings                    |          |                   |                        |
| Private parties             |          |                   |                        |
| Private parties – corporate |          |                   |                        |
| Total number of events held | 255      | 216               | 246                    |
| Weddings as a % of total    | 13%      | 12%               | 16%                    |
| Total revenue (£)           | 96,248   | 98,359            | 89,449                 |
| Average revenue per event   | £377     | £455              | £364                   |
| <b>Attendees</b>            |          |                   |                        |
| Weddings                    |          |                   |                        |
| Meetings                    |          |                   |                        |
| Private parties             |          |                   |                        |
| Private parties – corporate |          |                   |                        |
| Total number of attendees   | 12,547   | 8,755             | 12,087                 |

*Source: JHT prepared statistics and management accounts*

<sup>22</sup> Note that bookings information for 2009 was prepared by Jersey Heritage based on current data available around Mid-November 2009. A wholly accurate revenue per event figure will be available only after full year figures for both income and bookings have been reported.

### Fort Regent Signal Station

- Also included within trading activities is the operation of the Fort Regent signal station.
- Jersey Heritage provides this service to the States for a current rate of circa £24,000 per annum.
- The operation of the signal station also requires an element of employee time. The holder of the position has a dual role and is also the boat builder at the Maritime Museum. No allocation of staff costs is included in this analysis.

#### *Fort Regent signal station- pro-forma contribution*

|                               | FY 2007A      | FY 2008A<br>Draft | 9M 2009A      |
|-------------------------------|---------------|-------------------|---------------|
|                               | £             | £                 | £             |
| Fees receivable               | 16,725        | 17,375            | 18,487        |
| Direct costs                  | (5,924)       | (6,834)           | (4,848)       |
| <b>Pro-forma contribution</b> | <b>10,801</b> | <b>10,541</b>     | <b>13,639</b> |

*Source: JHT management accounts and footfall statistics*

| Observation   | Issue  | Recommendation  |
|---|--|---|
| <p><b>Current methods of reporting financial performance does not include an analysis of the financial performance of individual sites or activities.</b></p> | <ul style="list-style-type: none"><li>■ The directors and Trustees are not wholly aware of the detailed financial performance of each activity or site which may adversely affect the basis on which decisions can be made.</li><li>■ ESC does not receive financial information that will assist in prioritising options in a time of limited financial resource.</li></ul> | <ul style="list-style-type: none"><li>■ The new format of financial reporting should include a net contribution or cost analysis for each activity and/or site.</li></ul> |

## 10 Other services

### Jersey Archive

- Jersey Archive opened in 2000, following completion of the build which was funded by the States but managed by Jersey Heritage.
- The property is shown as part of Heritage assets within the Trust's financial statements.
- The building was constructed to high standards and utilises technology to maintain the internal environment at an appropriate temperature and humidity. Annual maintenance costs were around £30,000 in 2008.
- The day-to-day operations of the Archive are largely independent of the Jersey Heritage central management because the activities are so different. However, there are greater interactions between Archive and the management and conservation of museum collections, and also efficiencies gained through the use of the same collections database.
- The archive provides a service in relation to the Public Records (Jersey) Law 2002 (the "Public Records Law") to all States departments, Parishes and certain local utility companies such as Jersey Water. Jersey Heritage does not generate any direct revenues from the provision of records cataloguing, storage or management services to its clients.
- As a result, the service is effectively free for States' departments, with the exception of ESC which acts as conduit for the grant. Departments have a number of arrangements for the archive and storage of records, although recently have identified that they can free up additional funds by depositing records with the archive, thus increasing the archive backlog, which as at Q3 2009 was 21.7 years based on current staffing levels.

### Jersey Archive



Source: Jersey Heritage website

- In the absence of charges to the owners of the records stored there, the archive has little scope for generating revenue because it is prevented from directly charging the public for the provision of public records. The potential sources are therefore very limited, in the form of photocopying charges and similar, as well as some revenue from the rental of meeting rooms.
- Other revenue generating opportunities would arise if documents were available for the public to receive electronically when additional charges could then be applicable. However, this would require additional investment in the collections database.
- Archive fees represent photocopying charges and similar, and records management represent storage charges, which are minimal.
- In 2008 and 2009 the archive has taken on a specific assignment in respect of the Children's Home Enquiry for which it has received a total of £135,000 in revenue. The income is presented here in order to show a complete picture of the operations of the archive; however the incoming fees and associated expenses are treated as Restricted Funds for the purposes of the Trust's accounting records, reflecting the restrictions on the use of the funds.
- It is noted that there is no formal agreement with the States Greffe, the client, in respect of the enquiry records about the costs which can be allocated to the service, for example whether any central costs can be allocated. To date only direct costs have been allocated to the activity, which includes the costs of a specific additional post as well as some new racking. We would recommend that the position is agreed in order that Jersey Heritage can identify whether it is likely to have to repay the States Greffe any unspent part of the revenue.

**Proforma net cost – Jersey Archive**

|  | FY 2006A         | FY 2007A         | FY 2008A         | 9M 2009A         |
|--|------------------|------------------|------------------|------------------|
|  | £                | £                | £                | £                |
| Children's Home Enquiry fees                 | -                | -                | 65,000           | 70,000           |
| Heritage Venues                              | 11,567           | 11,493           | 7,740            | 13,622           |
| Archive fees                                 | 6,841            | 10,503           | 10,522           | 10,009           |
| Records management                           | 2,814            | 2,214            | 2,214            | 2,166            |
|  | 21,222           | 24,210           | 85,476           | 95,797           |
| Management and site guardian                 |                  |                  |                  |                  |
| Conservators and registrar                   |                  |                  |                  |                  |
| Archivists and assistants                    |                  |                  |                  |                  |
| Unallocated staff costs                      |                  |                  |                  |                  |
|  | (259,243)        | (325,695)        | (318,659)        | (261,956)        |
| Building maintenance                         | -                | (15,138)         | (31,054)         | (10,754)         |
| Archive, restoration & conservation expenses | -                | (35,833)         | (36,228)         | (17,412)         |
| Campaign expenses                            | -                | (8,513)          | (1,029)          | (3,209)          |
| Commissions payable                          | -                | (5,490)          | (4,757)          | (2,502)          |
| Donation re: medal purchase                  | -                | -                | (5,000)          | -                |
| Direct expenses - Venues                     | -                | (279)            | (741)            | -                |
| Allocated site costs                         | (21,641)         | -                | -                | -                |
| Allocated central costs                      | (17,220)         | -                | -                | -                |
| Allocated from collections costs             | (27,567)         | -                | -                | -                |
| Archives site team                           | (24,839)         | -                | -                | -                |
| Other expenses                               | (1,149)          | (5,763)          | (5,626)          | (6,316)          |
|  | (351,659)        | (396,711)        | (403,094)        | (302,149)        |
| <b>Net cost</b>                              | <b>(330,438)</b> | <b>(372,501)</b> | <b>(317,618)</b> | <b>(206,352)</b> |

Source: BDO working papers

- As with the other activities of the Trust the largest expense is the staff, although some of the roles included here are shared with the Museum and its collections.
- As can be seen from the 2006 figures above, an attempt was made to allocate central costs to the Archive in the past, however this was not continued.
- By operating the Archive within Jersey Heritage, the central functions such as finance and human resources do not represent an incremental cost.

### Key performance indicators

- Jersey Archive handles a huge number of records in order to assist the States of Jersey to comply with the requirements of the Public Records Law.
- As the KPIs (opposite) demonstrate the number of items of public record have typically far exceeded that of private records, with 77% of new items over the period presented relating to public records.
- Public access is limited, as previously noted, although the Trust has maintained a level of access, which is supported by some additional Saturday openings as sponsored by Appleby, part of the “Who Do You Think You Are” programme.
- The number of people attending the archive to review records has slowly increased over the period, and despite the reduced opening hours since 2003 we understand from management that the number of visitors has not significantly reduced as might have been expected. It is thought that this is as a result of increasing demand due to greater interest in archive records, in particular those of the Channel Island Family History Society and others relating to family history research.

### Jersey Archive - KPIs

|   | FY 2007A     | FY 2008A<br>Draft | 9M 2009A |
|---|--------------|-------------------|----------|
| <i>New records</i>  |              |                   |          |
| Public records items  | 6,325        | 13,273            | 5,832    |
| Private records items   | 5,024        | 1,315             | 1,091    |
| Total   | 11,349       | 14,588            | 6,923    |
| <i>Records management (including Children’s Home Enquiry)</i> |              |                   |          |
| Number of files appraised                                     | Not recorded |                   | 6,199    |
| Hours spent on appraisal                                      | Not recorded |                   | 355      |
| <i>Public access</i>  |              |                   |          |
| Days open to public   | 160          | 160               | 124      |
| Readers   | 3,288        | 3,506             | 2,719    |
| Enquiries   | 1,034        | 1,102             | 980      |
| Document requests   | 5,958        | 5,793             | 4,144    |

Source: JHT prepared statistics and management accounts

- Documents can currently be viewed only in person at the Archive, although there is an online facility to search the archive (and Museum) catalogue. It is possible to generate additional income through administration charges if documents could be accessed online. The development of the database system to facilitate this capability is however expected to be costly so whilst it would score well in terms of improvements to public access, the cost benefit analysis in purely financial terms is unlikely to produce strong arguments in favour of the additional spend. As it can be seen from the pro-forma net cost analysis of the archive on the above page, income from copying and printing is insignificant at around £10,000 per annum and with a Law that does not permit charges for access (only for means of obtaining documents), it is unlikely any material income streams remain unexploited.

### ***Compliance with UK National Standards***

- Jersey Archive scores well in relation to the quality of the service it delivers and exceeds the majority of national standards in this regard.
- The opening hours are limited, which restricts public access and means that the national standard for public access is not achieved. The lack of a formal lease on the facility also results in failure to achieve full accreditation. Such a facility must have security of tenure to be fully compliant with National Standards.

### ***Alternative funding arrangements***

- The establishment of Jersey Archive in 2000 resulted in an increase to Jersey Heritage's grant. However, this component of the grant was never separately identified by ESC (either at the time or thereafter) and nor was it, in actuality, specifically directed towards spend on archive services. In 2003, when funding pressures resulted in a reduction to Jersey Heritage's overall grant, the Trust implemented cuts across the whole organisation, including within the archive service which reduced public access to the site as a result of reduced headcount at the facility. At that time, the Trust was able to offer those archive staff alternative positions within the organisation and so has not previously been through a redundancy process, which it may now be faced with.
- To date, none of the States departments using the Archive, either for its services or its storage capacity, are paying directly for that service. The States Greffe is the one exception, which by virtue of exceptional circumstances relating to the historic Children's Home Enquiry has agreed a specific fee for the records management activities required.

- We understand that different States departments have differing approaches for dealing with their archive records, with some using third party storage facilities.
- As time has passed it is likely that departments have become aware that part of their spend can be reprioritised elsewhere by electing to pass all records requiring archive to Jersey Archive at no direct cost, eliminating the third party and associated cost. This has led to an increase in Jersey Archive's backlog, of which the majority are public records.
- Seeking an alternative solution, which may require the joined up effort of both ESC and Jersey Heritage, could result in a more appropriate funding methodology for the Archive. It is, however, noted that if an alternative solution did not result in incremental funding for Jersey Heritage, then the revised funding method would not prevent the difficult decisions that the Trust and ESC are currently faced with.
- It must also be decided by ESC and/or the States whether it is acceptable for the Archive to continue to operate with a backlog in excess of 20 years, and no clear way of reducing it at current staff levels.

### ***Staff cost composition***

- As we explain in detail in Section 12, the net cost proforma for Jersey Archive includes staff costs relating to two roles which could be considered to be more closely aligned with the Museum collections than the Archive operations. In the event that funding for the Archive could be obtained independently of the main grant from ESC, for example from each States' department utilising the service, together with the Parishes and utility companies who also use it, some or all of the cost of these positions should potentially be reallocated to the Museum operations.

## Historic Buildings

- Jersey Heritage has managed the Register of Buildings and Sites of Architectural, Archaeological and Historical Importance (the Register”) since January 2005. This was previously undertaken directly by the Department for Planning and the Environment, with the relevant employee being transferred to Jersey Heritage in order to undertake the role in an environment independent of any Jersey planning decisions.
- The role of the Historic Buildings Officer is the provision of independent advice to the Department as well as maintaining the Register. A detailed service level agreement is negotiated each year, together with the appropriate fee, which is driven primarily by the salary, benefits and employer costs of the Historic Buildings Officer.
- Through our discussions with management we understand that there is a good working relationship between the Department for Planning and the Environment and the approval of a new service level agreement each year enables specific priorities to be addressed and clearly stated for both parties.
- We also understand that the Trust typically does not receive the first instalment of the fee until half way through the year when a catch-up payment is typically made. This affects the cash flow and efforts should be made to ensure the cash is received at the beginning of the year and thereafter on a timely basis each quarter.
- The grant income and direct expenses relating to the historic buildings service have been extracted from the Trust’s financial records in order to present the net cost or contribution. This is presented as additional information only and both the grant income and related expenses are already included in the financial proforma set out on page 15.

## Proforma contribution – Historic Buildings

|                                   | FY 2006A        | FY 2007A     | FY 2008A     | 9M 2009A      |
|-----------------------------------|-----------------|--------------|--------------|---------------|
|                                   | £               | £            | £            | £             |
| Grant from planning & environment | 53,084          | 61,240       | 73,027       | 60,000        |
| <b>Expenses</b>                   |                 |              |              |               |
| Staff costs                       |                 |              |              |               |
| Research costs                    |                 |              |              |               |
| Special project / review costs    |                 |              |              |               |
| MRLAG                             |                 |              |              |               |
|                                   | 63,464          | 60,153       | 71,528       | 46,082        |
| <b>Net (cost) / contribution</b>  | <b>(10,380)</b> | <b>1,087</b> | <b>1,499</b> | <b>13,918</b> |

*Source: JHT management accounts and footfall statistics*

- The analysis above includes only the direct income and costs, and does not include an allocation of the overheads relating to housing the position of Historic Buildings Officer in Jersey Heritage’s premises, or other associated facilities costs. It also does not include any allocation of other management time, although undoubtedly there is involvement, even if that is limited, of the Director and Finance Director.
- The service has demonstrated a close-to-break-even position each year and there are no arrangements in place to recover any overspend or return any under-spend to the Department for Planning and the Environment.



| Observation  | Issue   | Recommendation  |
|--|---|---|
| <p><b>The users of the Archive service are not paying directly for their usage.</b></p>  | <ul style="list-style-type: none"> <li>■ This results in the potential for incentive for States departments and other Island bodies to deposit ever increasing amounts of records at the Jersey Archive.</li> <li>■ For example, we understand that there may be growth in the backlog of records awaiting formal accessioning and archiving as a result of certain departments identifying the opportunity to save money which can be diverted to alternative spending.</li> </ul>   | <ul style="list-style-type: none"> <li>■ Consideration should be given to alternative methods of funding Jersey Archive, such as charges to each States department, Parish or other organisation using the facility.</li> <li>■ In order to achieve and maintain compliance with the Pubic Records Law and National Archive Standards additional funding would be required. This would allow additional staff to be taken on facilitating increased opening hours and increased resource to tackle the backlog.</li> <li>■ A formal lease should be agreed between Jersey Heritage and the States to formalise occupancy of the building and the associated responsibilities of the parties.</li> </ul> |
| <p><b>Jersey Archive provides a valuable service to States departments, which currently implement a range of solutions to the management and storage of archive records.</b></p> <p><b>We also understand that departments may have become aware of the ability to pass archive records to Jersey Archive at no cost instead of private sector operators. In these cases individual departments may free up the previous revenue spend allocated to records management and storage of archive records whilst the budget for the archive is effectively remaining static.</b></p> | <ul style="list-style-type: none"> <li>■ The backlog of un-catalogued records is growing and the current resource will not allow Jersey Archive to accelerate the timeframe for reducing that backlog.</li> <li>■ The growth of the records that have been archived (or are awaiting archive) results in an enlarged operation, not solely in terms of staff costs, conservation expenses and preservation but to some extent in terms of facilities costs. The funding has not been adjusted on a consistent basis.</li> </ul> | <ul style="list-style-type: none"> <li>■ The funding level should be revisited to ensure that it is aligned with the operations of the facility, which are changing over time.</li> </ul>   |

## 11 Cost centres

### Learning

- The learning activities of the organisation relate to the delivery of heritage education and awareness throughout the community, particularly in schools and with older generations, mainly those living in care homes.
- The majority of expenses in the cost centre relate to the staff, and Jersey Heritage's own reporting also includes the cost of the living-history characters and the management of the living history programme. We have reclassified the living history expenses to the trading activities of the Trust given that the activity is an integral part of operating the sites as visitor attractions.
- The non-staff costs shown in the table relate to research related to the curatorial activities and education programmes. The costs of flash days and flash cards attract some sponsorship, albeit this will reduce going into 2010.
- No charges are made for issuing or replacing flash cards.
- There are currently three Curator roles, two of which interact with Jersey laws, providing support to the implementation of rules surrounding art and artefacts as well as archaeology.
- Education staff substantially comprises two roles, being the Education Officer and the Family Events Co-ordinator.

### Learning expenses – Unrestricted Fund

|                               | FY 2006A       | FY 2007A       | FY 2008A       | 9M 2009A       |
|-------------------------------|----------------|----------------|----------------|----------------|
|                               | £              | £              | £              | £              |
| <b>Staff costs</b>            |                |                |                |                |
| Management and administration |                |                |                |                |
| Curators                      |                |                |                |                |
| Education staff               |                |                |                |                |
| Community learning            |                |                |                |                |
| Unallocated                   |                |                |                |                |
| <b>Total staff costs</b>      | 256,122        | 272,145        | 306,617        | 234,717        |
| Education and research costs  | 36,484         | 41,129         | 22,581         | 6,952          |
| Outreach and events costs     | 12,730         | 16,664         | 61,828         | 12,482         |
| Flash-days                    | 10,551         | 13,448         | 13,460         | 8,958          |
| Flashcards / Lanyards         | -              | -              | -              | 8,660          |
|                               | <b>315,887</b> | <b>343,386</b> | <b>404,486</b> | <b>271,769</b> |

*Source: JHT management accounts and BDO analysis*

### Management and administration – central costs

- The central costs of operating the Trust include the staff associated with the directorate, administration support, human resources and accounting functions.
- This team consists of eight permanent roles and includes the Director, three finance personnel (including the Finance Director) one human resources professional (a part time role) and the Head of Commercial Operations. For administrative support there is a personal assistant to the directors and one administration assistant.
- The other expenses are more typical overheads.
- The collection of admissions revenue in cash results in additional costs relating to the secure collection and depositing of the money. This expense remains constant at around £10,000 per annum, which is around 1% of total admissions income. Bank charges are also significant as a result of payments by debit and credit card. This represents a further £10,000-£15,000 per annum.
- The total central costs have remained fairly consistent during the period presented, with increases largely related to staff cost increases in line with the Jersey RPI. In 2007 there were exceptional legal costs relating to an employee dispute and in 2008 a related compensation payment.
- Depreciation increased in 2008 and onwards as a result of new additions in computer equipment and till systems.
- No cost allocations to Jersey Archive have been made since 2006.

### Central costs – Unrestricted Fund

|                                   | FY 2006A | FY 2007A | FY 2008A | 9M 2009A |
|-----------------------------------|----------|----------|----------|----------|
|                                   | £        | £        | £        | £        |
| Staff costs                       | 312,121  | 338,778  | 325,418  | 277,162  |
| Cash collection                   | 10,334   | 9,719    | 9,487    | 6,570    |
| Communications                    | 37,883   | 32,286   | 38,522   | 27,181   |
| Stationery                        | 16,576   | 14,025   | 17,346   | 10,009   |
| Legal and audit fees              | 29,835   | 42,398   | 26,010   | 6,937    |
| Strategic development             | -        | -        | -        | 30,262   |
| IT costs                          | 17,008   | 27,154   | 31,781   | 33,208   |
| Travel and entertainment          | 7,961    | 6,812    | 4,741    | 4,424    |
| Staff training                    | 24,543   | 20,737   | 27,288   | 24,265   |
| Subscriptions and annual review   | 1,579    | 14,435   | 4,762    | 4,748    |
| Health and safety                 | 1,200    | 1,299    | 1,462    | 2,853    |
| Bank charges and interest payable | 6,619    | 7,616    | 14,052   | 8,065    |
| Depreciation - IT equipment       | 12,196   | 16,752   | 29,497   | 32,409   |
| Depreciation - motor vehicles     | 4,414    | 2,090    | 3,690    | 2,768    |
| Depreciation - office equipment   | 6,859    | 6,859    | 6,859    | 5,144    |
| Sundry expenses                   | 5,861    | 6,626    | 5,040    | 952      |
| Allocated to Archive              | (17,220) | -        | -        | -        |
|                                   | 477,769  | 547,586  | 545,955  | 476,957  |

Source: Management accounts

- The costs of specific reviews have been classified as part of the activity where appropriate, for example the retail consultant's fees have been classified as part of trading activities, so only the costs of the strategic review have been included in central costs, whereas the retail consultancy fees were classified as part of the investment in concessions.
- We carried out a high level review of the ledgers for 2006, 2007, 2008 and 9M 2009, which led to the identification of certain costs such as those relating to employee matters (see Sections 6 and 12).
- We also identified some spend on leaving gifts for employees. These amounts were not significant, however we believe that this practice is uncommon in the public or private sector and we recommend that spend of this type is not permitted going forward, with written procedures put in place if considered appropriate.
- Corporate entertainment expenses are also not significant and have declined during the period presented.
- As a committed employer, Jersey Heritage has continued to invest in training although we understand from discussions with the Head of Human Resources that in Q4 2009 spend was significantly reduced. This should have a positive effect on the outturn for 2009.
- As an organisation supported by the States, Jersey Heritage has access to preferential rates or discounts offered by certain suppliers. The finance manual requires that these arrangements should be used where possible.
- We also note from review of the AJC website that discounts are available to members, including with Jersey Telecom, which offers charities domestic rates on broadband services. Jersey Heritage is currently taking advantage of these preferential rates.

| Observation  | Issue  | Recommendation  |
|--|--|---|
| <p><b>As in any organisation, small transactions may not be identified as part of normal review procedures.</b></p> <p><b>In addition the lack of formal variance analysis may have resulted in some transactions or trends of less significance going undetected.</b></p> | <ul style="list-style-type: none"> <li>■ Over the years it would be possible for levels of spend to increase without there being a genuine reason why this should be the case. It is also possible that inappropriate spend has been incurred although we note that this is unlikely to have taken place at significant or material levels.</li> </ul> | <ul style="list-style-type: none"> <li>■ We would recommend that a detailed review of all spending is undertaken by the Finance Director to ensure that no inappropriate expenses are being incurred.</li> <li>■ Such a review should consider whether financial procedures and controls are being followed, such as the requirements in relation to quotes, purchase orders and payment of invoices, and cover a range of transactions of both large and small amounts.</li> </ul> |

## 12 Staff costs

### Introduction

- Staff costs represent the largest area of cost to the organisation, and have accounted for between 60% and 70% of total expenses in the Unrestricted Fund since the year ended 31 December 2006. Since the peak, at 70% of total costs in 2006, the proportion has fallen to 61% in the period to Q3 2009. However, this should also be placed in context of the total expenditure increase of 36% between 2006 and 2008.
- Staff are employed under a variety of forms of contract. As the business has seasonal requirements, these range from fixed term contracts to annual hours or zero contract hours. This ensures that cover can be provided on an ad-hoc basis to ensure sites are always properly staffed.
- Since 2006 staff costs have risen by 17% (to 2008). All contracts contain a clause giving staff a cost of living increase, equal to the Jersey All Items Retail Price Index as published by the States Statistics Unit. As a result, salaries have increased each year, with a corresponding increase in the employers other costs of social security and pension contribution.
- Since 2001 the full RPI increase has been implemented in each year, with the exception of 2005, when the RPI was 5.6% and the Trust negotiated with staff to limit the actual increase to 3%. This was undertaken in a different legal environment.
- In addition to the cost of living award, there are “automatic” increments awarded to those staff not already at the highest salary band within their grade. Going into 2010, there are a number of staff expecting an increment and this has recently been considered by the Board of Trustees and Remuneration Committee.

### Analysis of staff costs

|                                     | FY 2006A  | FY 2007A  | FY 2008A  | 9M 2009A           |
|-------------------------------------|-----------|-----------|-----------|--------------------|
|                                     | £         | £         | £         | £                  |
| Sites and collections               | 907,917   | 918,946   | 1,081,990 | 803,264            |
| Learning                            | 357,899   | 374,030   | 425,083   | 309,453            |
| Business development                | 111,769   | 118,687   | 134,155   | 119,244            |
| Jersey archive                      | 259,243   | 325,695   | 318,660   | 261,956            |
| Finance and central admin           | 312,121   | 338,778   | 325,418   | 277,162            |
|                                     | 1,948,949 | 2,076,136 | 2,285,306 | 1,771,079          |
| Year on year % increase             | 8.0%      | 7.0%      | 10.0%     | 3.0% <sup>23</sup> |
| Pay award increase<br>(Jersey RPI)  | 2.0%      | 3.6%      | 3.9%      | 6.4%               |
| Civil service pay award<br>increase | 3.5%      | 2.75%     | 4.4%      | 3.2%               |

Source: BDO analysis

- Whilst a proportion of the Trust’s grant from ESC is linked to the increase in States pay scales, there is permanent mismatch because the increase in JHT salaries has, over the period from 2001 to the latest pay review for the Trust and the States, been 3.2% higher than the increase awarded to civil servants. This is not significant over a 9 year period, but does partially explain how any mismatch arises. The remaining portion of the grant is not inflated.
- Other increases will of course have arisen, for various reasons such as overtime payments together with the creation of new positions. Actual increases in total staff costs were significantly greater than the pay award increases in 2006, 2007 and 2008, by 4%, 3.4% and 6.1% respectively.

<sup>23</sup> Note that the year-on-year increase shown here is an estimated growth rate based on an expected full year spend pro-rated based on 9M 200A figures

- For example, the total increase of 10% in 2008 compares to a RPI pay award increase of 3.9%. However, this can be explained to some extent by the acquisition of the castle ferry operation which brought additional staff onto the payroll in the form of drivers, crew and an additional Visitor Service Assistant to staff the West Park Kiosk.

### Total headcount

- Total headcount has only been reported in the quarterly activity report since 2008, and raw data is only readily available for us to calculate this from September 2007. As a result the table opposite presents only the trend in 2008 and 2009, with no comparison to earlier periods.
- Whilst the average Full Time Equivalent (“FTE”) staff number for both 2008 and 9M 2009 is consistent at 62, the trend from January 2008 has been for an increasing number of staff. Three or four of those positions were related to the castle ferry, which was staffed with two drivers and at least two crew members during peak season in the first year of operation. The crew and driver headcount has reduced since 2008, and management consider they are placed to operate this with optimal staff efficiencies going into the 2010 season.
- The 9M 2009 period has seen the Trust operate on fewer FTE in the high season months of July, August and September, as compared to 2008. However this may be as a result of the increased use of staff working hours on an ad-hoc basis.
- The average salary per FTE is anticipated to be 2.51% higher in 2009 than 2008. This is 3.89% lower than the RPI increase of 6.4% that was implemented in January 2009, representing around £88,000. This is explained in part by the departure of one staff member without replacement (c.£40,000 per annum equivalent).

and the reduction in working hours of a full time staff member to two days a week.

### Headcount – Full Time Equivalent (“FTE”)

|   | FY 2008<br>FTE | 9M 2009<br>FTE |
|---|----------------|----------------|
| January   | 57             | 62             |
| February  | 57             | 62             |
| March   | 58             | 63             |
| April   | 58             | 63             |
| May   | 59             | 63             |
| June  | 58             | 63             |
| July  | 65             | 63             |
| August  | 66             | 63             |
| September   | 67             | 61             |
| October   | 67             | tbc            |
| November  | 68             | tbc            |
| December  | 63             | tbc            |
| <b>Average FTE, excluding zero hours and ad-hoc contracts</b> | <b>62</b>      | <b>62</b>      |
| Total staff costs   | £2,285,306     | £1,771,079     |
| Average staff cost per FTE                                    | £36,890        | £28,362        |
| Extrapolated for 12M 2009                                     |                | £37,816        |
| Expected % increase 2008-2009                                 |                | 2.51%          |

Source: JHT staff database and BDO analysis

- Comparably few of the permanent staff work on a strictly seasonal basis. Given that three of the six sites are closed for five months of the year it may be that there are opportunities to reduce costs by implementing a more seasonal model.

- Site staff and possible options in respect of working arrangements have been mentioned in the respective site sections and are also discussed in further detail below.

### Site based staff

- Relatively few staff members can be directly attached to sites and their operation as visitor attractions. In 9M 2009 only 14% of total expenses (or 23% of total staff costs) related to the Site Guardians, Visitor Services Assistants and castle ferry staff which are needed to open sites to the public.
- Certain middle and senior management roles are also related to the site attractions. These costs have been set against total contribution from sites in the table at the beginning of Section 9, rather than arbitrarily allocated to individual sites.
- Each site is run with one Site Guardian, with the exception of Elizabeth Castle which has two, together with one Visitor Services Assistant who will be on duty during opening hours. At peak times at certain sites there may be two VSAs. Elizabeth Castle requires a ferry driver and crew member and certain sites have in-house cleaning staff to maintain the standard of public areas.
- Other staff that relate to site operation are the living history demonstrators, who offer real life interpretation and are employed to create interest for visitors, particularly at those sites which do not have much in the way of display or interpretation. The current internal reporting structure of the Trust classifies living history as an education activity but we have allocated this to the sites.
- The payroll groupings changed in 2009 to enable a more disaggregated reporting of staff costs within both the ledger and management accounts. As a result the detailed breakdown shown in columns 2006A, 2007A and 2008A has been estimated based on the raw data included in payroll reports from those years. Whilst they are broadly comparable, and fit for purpose in this context,

there may be some differences in allocation over the years presented.

### Sites and collections staff costs

|                                      | FY 2006A       | FY 2007A       | FY 2008A         | 9M 2009A       |
|--------------------------------------|----------------|----------------|------------------|----------------|
| <b>Site based staff</b>              |                |                |                  |                |
| Site guardians                       |                |                |                  |                |
| Visitor services assistants          |                |                |                  |                |
| Castle ferry drivers and crew        |                |                |                  |                |
| Cleaners                             |                |                |                  |                |
| <b>Sites and collections support</b> |                |                |                  |                |
| Management and admin                 |                |                |                  |                |
| Designers                            |                |                |                  |                |
| Technicians                          |                |                |                  |                |
| Unallocated                          |                |                |                  |                |
| <b>Total sites and collections</b>   | <b>859,429</b> | <b>865,237</b> | <b>1,028,290</b> | <b>761,666</b> |

Source: BDO analysis

- It is difficult to measure the efficiency of staff in an organisation where a time recording system is not used. A sign-in and sign-out procedure is used but this is intended to provide a means of evidencing the start and finish times of staff rather than facilitating a formal review as a control. It was intended to raise staff awareness of timekeeping and contractual hours.
- We are, however, able to make a number of observations from our work in order to provide further insight into the cost and efficiency of the Trust's human resources.
- The staff rota is prepared annually by the Human Resources Manager and finance assistant to ensure that sites are covered



during all opening hours. This can be used as a basis for understanding the staff hours requirement, and as a comparison to the estimated hours which were actually worked by staff and paid.

- As the table opposite shows, the total rota hours for VSAs in 2009 were very close to the total of site opening hours for the same period, at around 14,500. The VSA role is primarily to man the admissions desk and retail offering, a role that only needs to be undertaken when the site is open (and for a short time before opening and after closing). The result is therefore consistent with expectation and implies that the hours of VSA time the Trust intends to “purchase” is broadly equivalent to the site needs.
- The Site Guardian role differs to that of VSA and the duty hours will extend beyond times at which sites are open; as a result the expected staff hours exceed opening hours. Also impacting this is the employment of two site guardians at Elizabeth Castle and another “floating” site guardian who works between the sites and provides cover for holidays and other staff absence.
- The site guardian is responsible for site security, maintenance and cleanliness standards amongst other duties. As such, Jersey Heritage has structured all the site guardian positions as full time permanent roles and not seasonal positions.
- Almost 19,000 hours of site guardian time is planned by the Trust each year. This is significantly more than the total opening hours of around 13,800 hours, although is consistent with the 19,710 hours work that are required to provide cover at each site for 9 hours every day of the year.
- In order to ensure site guardian cover throughout the year, the Trust has an additional site guardian post which is not allocated hours on the rota *per se*. This is a floating position and gives scope for covering staff absence or leave.

**Summary of rota hours versus site opening hours**

|                         | <b>Total site<br/>Opening<br/>Hours</b> | <b>Total VSA<br/>Rota hours<br/>2009</b> | <b>Total Site<br/>Guardian<br/>Rota hours<br/>2009</b> |
|-------------------------|---|--|--|
| Museum                  | 2,730                                   | 2,787                                    | 3,491  |
| Maritime Museum         | 2,730                                   | 2,453                                    | 3,093  |
| Mont Orgueil            | 2,086                                   | 2,198                                    | 2,951  |
| Elizabeth Castle        | 1,680                                   | 1,645                                    | 4,126  |
| Elizabeth Castle Kiosk  | 1,680                                   | 1,575                                    | -  |
| La Hougue Bie           | 1,470                                   | 1,470                                    | 2,660  |
| Hamptonne               | 1,470                                   | 1,470                                    | 2,599  |
| Lunch cover not in rota | n/a                                     | 933                                      | n/a  |
|                         | <b>13,846</b>                           | <b>14,531</b>                            | <b>18,919</b>  |

Source: BDO analysis

- Additional site guardian time is purchased by the trust each year as a result of adopting a non-seasonal approach, which at the average hourly cost of site guardians (at current rates) is around £76,500.
- It is also important to note that actual time worked by site guardians may exceed the rota hours, which is a planning tool, completed at the beginning of each year. Overtime may be worked, including at premium rates in the event of anti-social hours. This is not captured in the analysis above and as such the time purchased by the Trust is likely to exceed the 18,919 hours. Overtime is commented on separately in this Section.

- The tables opposite show the expected hours for site staff based on the staff rota, as compared to the estimated hours actually worked, together with the same analysis in terms of the financial cost (shown in the second table).
- As the staff are permanent, paid holiday accounts for a reasonable proportion of the surplus of actual hours over planned hours. Overtime payments are approved by line management and subject to review by the human resources department prior to the processing of payroll, and cost the Trust around £20,000 for site roles in the 9M 2009.
- Accounting for the remaining hours are the retained staff which are not allocated hours in the staff rota. The figures show that the floating site guardian was providing cover for sites for around 40% of the time during the 9M 2009, leaving around 60% of the hours and cost as incremental.
- For VSAs the additional full time position which is not allocated hours in the rota is responsible for administration in the office for part of the time and in 9M 2009 has also covered sites for around 40% of the time.
- In 9M 2009 it is estimated that the total cost of paid holidays together with “inefficiencies” such as sick leave totalled £93,246.

**9M 2009 – rota hours versus actual hours**

|   | <b>9M 2009</b> |                       |
|---|----------------|-----------------------|
|   | <b>VSAs</b>    | <b>Site Guardians</b> |
| Rota hours                                    | 10,916         | 14,473                |
| Estimated actual hours worked and paid for    | 14,228         | 17,928                |
| <b>Surplus of actual hours over rota – 9M</b> | <b>3,312</b>   | <b>3,455</b>          |
| Comprising:-                                  |                |                       |
| Paid annual leave                             | 1,188          | 1,445                 |
| Overtime                                      | 975            | 740                   |
| Staff not allocated rota hours                | 1,149          | 1,270                 |
|   | <b>3,312</b>   | <b>3,455</b>          |

Source: BDO analysis

**9M 2009 – cost equivalent of rota hours versus actual**

|  | <b>9M 2009</b> |                       |
|--|----------------|-----------------------|
|  | <b>VSAs</b>    | <b>Site Guardians</b> |
|  | <b>£</b>       | <b>£</b>              |
| Rota hours – basic salary                      | 112,916        | 181,712               |
| Actual basic pay 9M 2009                       | 147,172        | 225,097               |
| <b>Surplus of actual over rota – 9M</b>        | <b>34,256</b>  | <b>43,385</b>         |
| Comprising:-                                   |                |                       |
| Paid annual leave                              | 12,283         | 18,150                |
| Overtime                                       | 10,085         | 9,287                 |
| Staff not allocated rota hours                 | 11,888         | 15,948                |
|  | <b>34,256</b>  | <b>43,385</b>         |
| Estimated employer social security             | 2,227          | 2,820                 |
| Estimated employer pension contribution        | 4,658          | 5,900                 |
| <b>Total staff cost of “surplus” – maximum</b> | <b>41,141</b>  | <b>52,105</b>         |

Source: BDO analysis

- These observations may provide useful information for use by both management and the Board of Trustees as part of an efficiency review. There are clearly opportunities to implement some changes to the site guardian staffing to make it more seasonal, which is discussed further below. There may also be opportunities to analyse the efficiencies of staff members not allocated rota hours, and also for all staff during periods of site closure. Overtime represents only £20,000 of the total of around £93,000; however there is an opportunity to revisit the approval process, which may include an approval of overtime in advance of it being worked.
- The comparison of the non-seasonal model to the possibility of a seasonal one should not be made without mention of some of the risks and problems associated with a seasonal model for site guardian staffing. These include:
  - Reduced site security and risk of vandalism during long periods of closure;
  - Reduced routine maintenance at sites by Site Guardians may increase the external cost of maintenance works or result in under maintained sites;
  - Reduced appeal to employees and prospective candidates who require year round work which may impact the quality of staff appointed and retained; and
  - Reduced quality of visitor experience as site guardian “attachment” to and pride in sites is likely to be lower.
- Any of these issues or risk factors could adversely affect other financial variables, including admissions income despite the staff cost savings. Should such a strategy be considered it is important that management and the Board of Trustees carry out a risk analysis quantifying the possible financial risks and benefits before

taking any decision. There may be other barriers to implementing such a strategy that are outside the control of Jersey Heritage.

- The table below sets out the profile of each of the site guardians. The annual full time equivalent salaries of site guardians range from [redacted], although site guardian hours are typically longer than the JHT full time role (1,950 hours per annum or 37.5 hours a week) and range between 1,950 and 2,153 hours per annum for the site guardians not working part time. The summary of actual salaries in the table opposite reflects the additional hours.

**Site guardian staff profile**

|       | Basic Salary<br>2009<br>£ | Age | Contracted<br>hours | Years<br>service |
|-------|---------------------------|-----|---------------------|------------------|
| SG 1  | [Redacted]                |     | 2,059               | 12               |
| SG 2  |                           |     | 1,972               | 5                |
| SG 3  |                           |     | 1,854               | 2                |
| SG 4  |                           |     | 1,436               | 10               |
| SG 5  |                           |     | 1,034               | 4                |
| SG 6  |                           |     | 2,337               | 9                |
| SG 7  |                           |     | 1,969               | 10               |
| SG 8  |                           |     | 1,950               | 11               |
| SG 9  |                           |     | 2,075               | 3                |
| SG 10 |                           |     | 2,030               | 10               |
| SG 11 |                           |     | 2,153               | 8                |
|       | 263,571                   |     | 20,869              |                  |

Source: JHT staff database and BDO analysis

- The total estimated staff cost for site guardians, based on the contractual level of basic salary, inclusive of pension and employer social security contributions is around £317,000, which provides 20,869 hours of site guardian cover.

- This group of staff is long standing, with only three of the eleven staff having served less than 5 years with Jersey Heritage. In the event that posts are made redundant as a result of site closures this will have an impact on the cost of restructuring.
- As explained above, the scheduled working hours of VSAs closely track the opening hours of the sites.
- Taking account of holiday pay, together with “inefficiencies” that mean actual hours worked and paid are higher than those set out in the staff rota, the cost of VSAs was around £40,000 higher than it would have been at 100% efficiency in 9M 2009.
- As the table opposite shows, VSAs are employed under different arrangements to ensure that the benefits of seasonal opening at the various sites are maximised.
- This group of staff is, on average, older than others, with longer levels of service that may impact on the cost of any restructuring.
- Zero or ad-hoc hours staff are excluded from the table.

**Visitor service assistant staff profile**

|        | Basic Salary<br>2009<br>£ | Age | Contracted<br>hours | Years service |
|--------|---------------------------|-----|---------------------|---------------|
| VSA 1  |                           |     | 1,703               | 10            |
| VSA 2  |                           |     | 1,392               | 3             |
| VSA 3  |                           |     | 1,326               | 8             |
| VSA 4  |                           |     | 1,848               | 9             |
| VSA 5  |                           |     | 1,365               | 4             |
| VSA 6  |                           |     | 1,444               | 2             |
| VSA 7  |                           |     | 490                 | 8             |
| VSA 8  |                           |     | 490                 | 3             |
| VSA 9  |                           |     | 508                 | 7             |
| VSA 10 |                           |     | 490                 | 9             |
| VSA 11 |                           |     | 390                 | 2             |
| VSA 12 |                           |     | 490                 | 7             |
| VSA 13 |                           |     | 390                 | 2             |
| VSA 14 |                           |     | 490                 | 9             |
| Total  | 136,007                   |     | 12,816              |               |

Source: JHT staff database and BDO analysis

### Site management and support staff

- Overseeing the site guardians and VSAs is a Sites Manager and a Head of Visitor Services. Also supporting the operations of sites and their exhibits is a small team of designers and technicians who are responsible for design, together with the construction and routine maintenance of temporary exhibitions.
- This site management structure is based on the operation of the six sites, together with the Heritage Venues and Lets businesses. Management consider that this same structure may not be required in the event that fewer sites were operated, which may give rise to a step change in the business and organisational structure.
- The design team currently works primarily on marketing initiatives given the limited number of temporary exhibitions that have been held recently, as well as limited renewal of permanent exhibits in recent years.
- It is likely that this type of work could be delivered effectively from outside the organisation using a local design firm; however, the skills of Jersey Heritage's designers go beyond marketing materials. Their specialist knowledge is in relation to exhibitions which has been utilised less in recent years as the refreshment of permanent displays and display of temporary exhibits has been curtailed as a result of financial constraints.
- Cost savings have arisen recently, as the assistant designer has requested a move to 2-day week. The current intention is to operate this function with existing staff only and benefit from the saving.
- Technicians also provide a function that could be outsourced. The possible benefits and pitfalls of outsourcing certain functions are considered in more detail later in the Report.

### Site management staff profile

|                          | Basic Salary<br>2009<br>£ | Age | Contracted<br>hours | Years<br>service |
|--------------------------|---------------------------|-----|---------------------|------------------|
| Head of visitor services |                           |     | 1,950               | 22               |
| Sites manager            |                           |     | 1,950               | 2                |
| Maintenance manager      |                           |     | 1,950               | 9                |
|                          | <hr/>                     |     |                     |                  |
|                          | 133,049                   |     |                     |                  |

Source: JHT staff database and BDO analysis

### Design staff profile

|                    | Basic Salary<br>2009<br>£ | Age | Contracted<br>hours | Years<br>service |
|--------------------|---------------------------|-----|---------------------|------------------|
| Designer           |                           |     | 1,950               | 13               |
| Assistant designer |                           |     | 1,950               | 6                |
|                    | <hr/>                     |     |                     |                  |
|                    | 63,000                    |     |                     |                  |

Source: JHT staff database and BDO analysis

### Technician staff profile

|                      | Basic Salary<br>2009<br>£ | Age | Contracted<br>hours | Years<br>service |
|----------------------|---------------------------|-----|---------------------|------------------|
| Technical supervisor |                           |     | 1,950               | 11               |
| Technician 1         |                           |     | 1,950               | 18               |
| Technician 2         |                           |     | 1,950               | 7                |
|                      | <hr/>                     |     |                     |                  |
|                      | 79,140                    |     |                     |                  |

Source: JHT staff database and BDO analysis

## Learning

- Education and learning staff deliver a whole programme of activities which includes the teaching of children both on site and in schools, activity days known as Flash Days, work with local elderly people and various other activities. Living history is also classified here, although we also consider this an integral part of the sites as attractions, indeed management consider that this attracts and maintains visitor numbers at sites. As a result, when estimating the net cost or contribution from sites, living history costs have been allocated to trading activities rather than the central “learning” cost centre.
- The trust employs three Curators specialising in art, social history and archaeology. Both the art and archaeology curators provide expertise in relation to the enforcement of Jersey law.
- Under the Customs and Excise (Import and Export Control) (Jersey) Order 2006, certain items of cultural or artistic value to Jersey, such as works of art, maps or objects, require a licence to export. Assessment of such items may require the specialist knowledge of the curator of art at Jersey Heritage, in which case the Trust will assist Customs and Excise through the provision of its staff for particular cases.
- The curator of archaeology may be required to assist with the implementation of planning laws, such as the Planning and Building (General Development) (Jersey) Order 2008, which protects sites of archaeological interest or Areas of Archaeological Potential.
- Both these activities generate a negligible amount of revenue for Jersey Heritage from the States of Jersey, and do not require a large time commitment from Trust staff. We understand that the Trust does not receive a retainer for the provision of this capability.

## Learning staff costs

|                                      | FY 2006A       | FY 2007A       | FY 2008A       | 9M 2009A       |
|--------------------------------------|----------------|----------------|----------------|----------------|
|                                      | £              | £              | £              | £              |
| <b>Learning</b>                      |                |                |                |                |
| Management and admin                 |                |                |                |                |
| Curators                             |                |                |                |                |
| Education staff                      |                |                |                |                |
| Living history and volunteer support |                |                |                |                |
| Unallocated                          |                |                |                |                |
| <b>Total learning</b>                | <b>357,899</b> | <b>374,030</b> | <b>425,083</b> | <b>309,453</b> |

Source: BDO analysis

- The academic background and experience that is required of the Curators is not held by a large number of individuals in the Island, although we note that the current post holders have gained the majority of their experience at the Trust rather than bringing with them a significant background spent working in other heritage organisations off Island. It may even be the case that the current post holders are the only properly qualified individuals to undertake the roles.
- This team is overseen by the Head of Community learning, who is supported by an Interpretation Co-ordinator and a researcher (part-time).
- The detailed profile of each group of employees is set out below.

- Some cost savings have been gained in the latter part of 2009, after the resignation of the Volunteers and Living History co-ordinator who left at the end of August and was not replaced.
- As the season was substantially complete at that time this did not present any major management issues, and, as a [redacted] basic salary role, this would represent a reasonable saving on an ongoing basis.
- This group contains some long standing staff, which have specific (and in Jersey rare) expertise, particularly the holders of the Curator roles.
- Other staff classified in the “education” payroll include the Family Events Co-ordinator who is responsible for the programme of Flash Days held for children. A major part of the withdrawn sponsorship for 2010 relates to the Flash Days and at present no alternative sponsor has been identified.
- The animal carer works solely at Hamptonne on a part time basis, although also cares for the animals on his own land when the site is closed for the winter.
- The boat builder has a dual role; as well as his role at the Maritime Museum he is responsible for the operation of the signal station at Fort Regent, which generates circa £18,000 fee income per annum to the Trust.

#### Learning, management and admin staff profile

|   | Basic Salary |     | Contracted hours | Years service |
|---|--------------|-----|------------------|---------------|
|   | 2009         | Age |                  |               |
|   | £            |     |                  |               |
| Head of community learning              |              |     | 1,950            | 24            |
| Interpretation co-ordinator             |              |     | 1,768            | 6             |
| Researcher                              |              |     | 520              | 1             |
| Volunteer / living history co-ordinator |              |     |                  |               |
|   | Vacant role  |     |                  |               |
|   | 91,112       |     |                  |               |

Source: JHT staff database and BDO analysis

#### Curator staff profile

|                           | Basic Salary |     | Contracted hours | Years service |
|---------------------------|--------------|-----|------------------|---------------|
|                           | 2009         | Age |                  |               |
|                           | £            |     |                  |               |
| Curator of art            |              |     | 1,690            | 15            |
| Curator of archaeology    |              |     | 1,690            | 15            |
| Curator of social history |              |     | 1,950            | 9             |
|                           | 94,486       |     |                  |               |

Source: JHT staff database and BDO analysis

#### Other education staff profile

|                            | Basic Salary |     | Contracted hours | Years service |
|----------------------------|--------------|-----|------------------|---------------|
|                            | 2009         | Age |                  |               |
|                            | £            |     |                  |               |
| Education officer          |              |     | 1,950            | 7             |
| Family events co-ordinator |              |     | 1,560            | 9             |
| Animal carer               |              |     | 700              | 9             |
| Boat builder               |              |     | 975              | 10            |
|                            | 86,612       |     |                  |               |

Source: JHT staff database and BDO analysis

### Business development

- Business development comprises the marketing function, which also oversees the Jersey Heritage membership, sponsorships and corporate supporters. It also includes the Heritage Lets business unit, together with Heritage Venues.
- The staff costs associated with Heritage Venues has also been included in the summary of net contribution from sites, given that it is a relevant direct cost of room and site hire. It has also been presented as part of the financial summary of Heritage Venues as a business unit in isolation.
- The financial reporting of the Trust does not analyse either the performance of individual sites, or even the performance of the trading activities as a whole. It has therefore never looked at the cost of marketing and business development, including the cost of business development staff on the payroll, in the context of the income sources it is developing. Our observations in this regard are set out above in Section 9.
- The cost of staff undertaking roles in Heritage Venues cannot be separately identified or estimated for 2006 as a result of the less detailed payroll reporting at that time. The role was fulfilled by temporary staff, for which the cost is included elsewhere within staff costs.

### Business development staff costs

|                             | FY 2006A | FY 2007A | FY 2008A | 9M 2009A |
|-----------------------------|----------|----------|----------|----------|
|                             | £        | £        | £        | £        |
| <b>Business development</b> |          |          |          |          |
| Management and admin        |          |          |          |          |
| Heritage Venues             |          |          |          |          |
| Heritage Lets               |          |          |          |          |
| Unallocated                 |          |          |          |          |
|                             | 111,769  | 118,687  | 134,155  | 119,244  |

Source: BDO analysis

### Business development staff profile

|  | Basic Salary<br>2009<br>£ | Age | Contracted<br>hours | Years<br>service |
|--|---------------------------|-----|---------------------|------------------|
| Head of marketing<br>and business<br>development |                           |     | 1,950               | 2                |
| Marketing assistant                              |                           |     | 1,950               | 1                |
| Heritage Lets co-<br>ordinator                   |                           |     | 1,950               | 3                |
| Heritage Venues co-<br>ordinator                 |                           |     | 1,950               | 2                |
|  | 124,680                   |     |                     |                  |

Source: JHT staff database and BDO analysis



### Jersey Archive

- Since a reduction in Jersey Heritage's overall budget in 2003, the Archive has operated reduced opening hours as a result of a reduced headcount. The current staffing level of six archivists (excluding the additional role specifically for the Children's Home Enquiry) is far less than the recommended 11 for an equivalent facility under UK best practice.
- The conservator and registrar roles are more closely aligned to the museum collections than the archive operations. In the event that funding for the Archive could be obtained independently of the main grant from ESC, for example, from each States' department utilising the service, together with the Parishes and utility companies who also use it, some or all of the cost of these positions could be reallocated to the Museum operations.

### Jersey Archive staff costs

|                              | FY 2006A | FY 2007A | FY 2008A | 9M 2009A |
|------------------------------|----------|----------|----------|----------|
|                              | £        | £        | £        | £        |
| <b>Jersey Archive</b>        |          |          |          |          |
| Management and site guardian |          |          |          |          |
| Conservators and registrar   |          |          |          |          |
| Archivists and assistants    |          |          |          |          |
| Unallocated                  |          |          |          |          |
|                              | 259,243  | 325,695  | 318,660  | 261,956  |

Source: BDO analysis

### Jersey Archive staff profile

|                       | Basic Salary |     | Contracted hours | Years service |
|-----------------------|--------------|-----|------------------|---------------|
|                       | 2009         | Age |                  |               |
|                       | £            |     |                  |               |
| Head of Archives      |              |     | 1,950            | 12            |
| Senior archivist      |              |     | 1,950            | 7             |
| Archivist             |              |     | 1,950            | 9             |
| Assistant archivist 1 |              |     | 1,950            | 2             |
| Assistant archivist 2 |              |     | 1,170            | 4             |
| Assistant archivist 3 |              |     | 1,950            | 9             |
| Assistant archivist 4 |              |     | 1,170            | 4             |
| Records assistant     |              |     | 1,950            | 11 months     |
| Archive conservator   |              |     | 1,560            | 8             |
| Conservator           |              |     | 1,950            | 23            |
| Registrar             |              |     | 1,950            | 22            |
|                       | 320,954      |     |                  |               |

Source: JHT staff database and BDO analysis

### Central finance and administration

- This team comprises the directorate and the central support staff, which includes accounting and finance, human resources and the management of the retail aspect of the site operations, which has been brought back in-house this year having been previously outsourced as concessions.
- The roles have remained mainly consistent over the last few years, although the change in the business model in respect of the retail offering has created an additional role for a commercial operations manager, as explained in Section 9 on trading operations.
- The senior management roles are currently capped at the mid-point of each respective senior management grade, so there are currently no increments being awarded to either the Director or the Finance Director.

### Central finance and administration staff costs

|                                   | FY 2006A       | FY 2007A       | FY 2008A       | 9M 2009A       |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | £              | £              | £              | £              |
| <b>Finance and administration</b> |                |                |                |                |
| Finance and central admin         | 287,424        | 312,426        | 297,566        | 264,261        |
| Additional pension                | 24,697         | 26,352         | 27,852         | 22,437         |
|                                   | <u>312,121</u> | <u>338,778</u> | <u>325,418</u> | <u>277,162</u> |

Source: BDO analysis

### Central finance and administration staff profile

|                               | Basic Salary<br>2009<br>£ | Age            | Contracted<br>hours | Years service |  |
|-------------------------------|---------------------------|----------------|---------------------|---------------|--|
| Director                      | [REDACTED]                |                | 1,950               | 20            |  |
| Finance director              |                           |                | 1,950               | 19            |  |
| Head of human resources       |                           |                | 1,430               | 2             |  |
| Sales ledger                  |                           |                | 1,300               | 3             |  |
| Purchase ledger               |                           |                | 1,950               | 12            |  |
| Commercial operations officer |                           |                | 1,950               | 7             |  |
| Directors secretary           |                           |                | 1,950               | 5             |  |
| Administrative assistant      |                           |                | 1,560               | 6             |  |
|                               |                           | <u>304,076</u> |                     |               |  |

Source: JHT staff database and BDO analysis

## Historic buildings

- The historic building service was taken on in the year ended 31 December 2005, and is provided for the Planning and Environment department under a service level agreement which is renegotiated each year with clear responsibilities and targets.
- The service has been accounted for in different ways over the years, starting off in the Restricted Fund, and later being reclassified to the Unrestricted Fund, which represents the performance summary for the majority of the operating activities of the organisation.
- The Historic Buildings Officer was previously employed by the Planning Department directly and was “transferred” to the staff of Jersey Heritage. The role is specialist but benefits from being undertaken independently of planning, as it involves advice in respect of planning applications on buildings of historic interest, as well as the maintenance of the historic buildings register.
- Whilst the service typically generates a small surplus each year, there is no allocation of overhead or senior management time to the costs.

## Historic buildings service staff costs

|                            | FY 2006A | FY 2007A | FY 2008A | 9M 2009A |
|----------------------------|----------|----------|----------|----------|
|                            | £        | £        | £        | £        |
| <b>Historic Buildings</b>  |          |          |          |          |
| Historic buildings officer |          |          |          |          |

*Source: JHT staff database and BDO analysis*

### Overtime

- Overtime is payable to staff and is included in the total staff costs shown in the tables above, together with employers social security contributions thereon.
- A summary of overtime payments is set out in the table opposite. As this shows, the total overtime payments do not account for a significant proportion of total staff costs. When compared to contracted salaries, overtime represented only 3%.

### Summary of overtime

|   | FY 2007A      | FY 2008A      | 9M 2009A      |
|---|---------------|---------------|---------------|
|   | £             | £             | £             |
| Site Guardians                                | 15,023        | 24,770        | 11,416        |
| VSA's   | 4,686         | 15,044        | 10,085        |
| Archive (includes conservators and registrar) | 7,377         | 5,993         | 7,551         |
| Living History and Volunteer Support          | 3,032         | 2,344         | 2,474         |
| Other   | 24,194        | 8,682         | 31,206        |
|   | <u>54,312</u> | <u>56,833</u> | <u>62,732</u> |

Source: BDO analysis

## Terms and conditions of employment

- As stated above, the nature of the organisation requires a number of different arrangements with staff to enable it to deal with some of the seasonal requirements of the business.
- Statements of employment terms, together with the staff handbook, were updated when the Employment Law (Jersey) 2003 came into effect, in July 2005. It is understood that advice was taken from Ogiers in respect of the changes that were necessary to the Trust’s policies and procedures, together with the employment contracts.
- The current Human Resources Manager has been with the Trust since September 2007, and previously worked in the financial services industry in Jersey, having held positions with a number of large organisations. A number of changes have been introduced since then, most notably the subscription to “Law At Work” which is a joint venture between a local firm of Jersey lawyers and a specialist employment law firm in Scotland. It provides Jersey Heritage with access to advice for the duration of their contract in return for payment of a retainer fee.
- In addition, the package of services selected by Jersey Heritage includes insurance, which provides insurance cover in the event of a judgement against the Trust at an employment tribunal, as long as the Trust has followed advice provided by Law At Work.
- The annual cost of the Law At Work retainer and insurance is around £8,000.
- The table opposite sets out some of the key terms of employment.
- All staff are entitled to the annual cost of living award increase. Subject to meeting certain criteria, all staff not already in the highest band in a salary scale will be awarded an increment to the next band each year until they reach the top of the scale.

## Key features of terms of employment and staff handbook

| Matter                     | Provision in terms of employment (permanent staff)   |
|----------------------------|--|
| Salary grades              | Grading structure established with 11 grades and typically 5 or 6 bands within each grade  |
| Salary                     | Specified to each staff member in their individual contract. Set according to salary grades  |
| Standard FTE working hours | 37.5 hours per week<br>1,950 hours per annum   |
| Overtime                   | Senior management team are not entitled to overtime payments but may be granted “time off in lieu” (“TOIL”) where appropriate by the Director<br>Grades H - E: overtime is paid at time and a half during anti social hours (between 6pm and 6am on any day) and standard rate during normal working hours (which includes Saturdays, Sundays and Bank Holidays)<br>Grades D – B: staff are entitled to overtime in the form of TOIL |
| Salary increases           | Each employee is entitled to a cost of living award each January, which will not be less than the annual rise in the cost of living increase for the 12 month period ending on 30 September each year<br>Staff members will also receive salary increments each year until reaching the top of their grade. Thereafter only the annual RPI linked increase is applicable   |
| Annual leave               | Specified to individuals in their contracts, starting at 20 days to a maximum of 32 days at senior management level and after 20 years service   |
| Pension                    | Permanent staff offered membership of scheme, which is the States of Jersey PECS. Employer contribution is 13.6% and scheme is contributory with employees opting to join required to contribute 5%  |
| Healthcare                 | Not provided   |

*Source: Contracts of employment, terms of employment and staff handbook*

### Grading structure

- Jersey Heritage operates a grading structure for staff and each grade includes either five or six salary bands.
- There is significant overlap between the salaries at the top end of one grade and the lower end of the grade above. This is not the case within the senior management grades, where each grade is distinct from the others in relation to remuneration.
- Those staff earning up to £28,100 per annum are entitled to the payment of overtime. Those staff earning up to £38,300 will also be entitled to TOIL for any overtime worked. An analysis of paid overtime is presented earlier in this Section.
- The senior management salary grades were based on States of Jersey job grades, with the associated remuneration reduced by 15% from States levels to reflect affordability for the Trust, following a comprehensive evaluation of the roles by an independent consultant a number of years ago.
- We understand that the grading structure has previously come under scrutiny by the States, and the Trust's Human Resources Manager has prepared a comparison of States pay scales and other terms and conditions of employment. Having reviewed this document, together with other information about staff salaries and other benefits, we have made a number of observations.
- The table shows that 39 of the Trust's total staff (of around 60-70 permanent employees), are at the top of their grade in salary terms.

### Salary grades as at 1 January 2009

| Grade                                 | Minimum<br>£ | Maximum<br>£ | Number of<br>staff at top<br>of Grade | Total<br>number of<br>staff |
|---------------------------------------|--------------|--------------|---------------------------------------|-----------------------------|
| H                                     | 14,040       | 18,300       | 2                                     | 2                           |
| G                                     | 17,430       | 22,540       | 3                                     | 11                          |
| F                                     | 19,130       | 25,520       | 12                                    | 25                          |
| E                                     | 23,000       | 28,100       | 9                                     | 9                           |
| D                                     | 24,690       | 31,500       | 1                                     | 3                           |
| C                                     | 26,390       | 34,900       | 3                                     | 3                           |
| B                                     | 29,800       | 38,300       | 4                                     | 6                           |
| <i>Senior management<sup>24</sup></i> |              |              |                                       |                             |
| 4                                     |              |              | 1                                     | 4                           |
| 3                                     |              |              | 2                                     | 2                           |
| 2                                     |              |              | 1                                     | 1                           |
| 1                                     |              |              | 1                                     | 1                           |
|                                       |              |              | 39                                    | 67                          |

*Source: JHT comparison of terms of employment with States of Jersey & JHT staff database*

<sup>24</sup> The senior management grades are currently capped at the mid point of the range set out in the table.

### Benchmarking to States of Jersey pay scales

- The lowest salary level at Jersey Heritage is £14,040 (although there are no staff employed at that level), whilst the lowest States of Jersey manual worker salary was £18,947 (at 1 June 2007 rates).
- The maximum salary payable to a non-managerial grade at Jersey Heritage is £38,300, as compared to £50,725 (at current rates) for States of Jersey workers. This is a difficult area in which to draw direct comparisons because of the way in which Jersey Heritage grades interact with States job grades. The tables opposite set out a broad comparison, which was undertaken by the Head of Human Resources with assistance from the States Human Resources department. The ranges of States pay scales (at the maximum level for the comparable States' pay grades) against each of the Jersey Heritage grades demonstrates that any comparison is complex and must be considered as an approximation only unless a full and comprehensive job evaluation is undertaken.
- It is possible, further to a States instructed survey<sup>25</sup> benchmarking States pay scales with the private sector, to draw some comparisons, as we have presented in the table relating to senior management roles. However, the work involved in mapping the analysis for other staff to that report is unlikely to add significant value because there are no comparable organisations to the Trust operating at a similar scale on the Island.
- It is worth noting however that at the lowest level, Grade H, the median level of pay in Jersey's private sector was £14,420, significantly lower than the maximum available to JHT staff. Only median levels were reported in the survey limiting the firm conclusions that can be drawn.
- Currently, the lowest FTE salary at Jersey Heritage is £15,600.

<sup>25</sup> Undertaken by Hassel Blampied Associates Limited

### Senior Management - Comparison to States Pay Grades

| Jersey Heritage Grade – Senior Mgt | Maximum Pay Jersey Heritage<br>£ | States of Jersey Civil Service Grade | Maximum Pay States of Jersey<br>£ | Median Pay Private Sector<br>£ |
|------------------------------------|----------------------------------|--------------------------------------|-----------------------------------|--------------------------------|
| 4                                  |                                  |                                      |                                   |                                |
| 3                                  |                                  |                                      |                                   |                                |
| 2                                  |                                  |                                      |                                   |                                |
| 1                                  |                                  |                                      |                                   |                                |

Source: JHT comparison of terms of employment with States of Jersey and States of Jersey Pay Benchmarking reports

### Other Staff - Comparison to States Pay Grades

| Jersey Heritage Grade | Maximum Pay Jersey Heritage<br>£ | Maximum Pay Across Comparable States of Jersey Job Grades <sup>26</sup><br>£ |
|-----------------------|----------------------------------|--|
| H                     | 18,300                           | 21,658   |
| G                     | 22,540                           | 22,708 – 25,264  |
| F                     | 25,520                           | 25,264 – 31,455  |
| E                     | 28,100                           | 27,938 – 41,324  |
| D                     | 31,500                           | 35,658 – 41,324  |
| C                     | 34,900                           | 31,455 – 35,658  |
| B                     | 38,300                           | 35,658 – 50,725  |

Source: JHT comparison of terms of employment with States of Jersey

- The Head of Human Resources is currently engaged in a process to update all job descriptions, which will facilitate a review of the Trust's grading system.

<sup>26</sup> Includes both manual worker and civil service grades at the maximum pay applicable to each States grade to which the Jersey Heritage grades were matched.

- A review of the staff database detailing all Jersey Heritage contracted staff in September 2009 shows that the lowest FTE salary received by any permanent staff member is £18,300, the top of grade H. The Trust does not, at this time, employ any workers at the lowest end of the scale (£14,040).
- The Trust has a low level of staff turnover. The length of service of staff as at September 2009 is presented in the table opposite. The fact that there are few members of staff at the lower end of each salary grade is consistent with a long serving staff base.
- As a result of the annual increment which allows individuals not already at the top of their salary grade to move up one band (within that grade) each year, subject to the achievement of some fairly straightforward criteria, there are additional pressures on the total wage bill for the organisation. The criteria which must be satisfied in order for an increment to be awarded are as follows:
  - Meeting of standards for the post
  - Acceptable attendance record
  - No disciplinary warning has been issued
  - Employee has held the post for at least 9 months
  - The trust can afford it
- The award of increments is non-contractual, unlike the cost-of-living pay award increase, which is contractual and therefore an obligation of the Trust.
- The last criteria, that “the trust can afford it” is an interesting one, and we understand that this has not, to date, been used as a reason to defer the annual increment for staff still progressing through the salary bands within their grade.

***Length of service as at September 2009***

| <b>Length of service</b> | <b>Number of staff</b> |
|--------------------------|------------------------|
| 1 year or less           | 3                      |
| 1-3 years                | 14                     |
| 3-5 years                | 6                      |
| 5-10 years               | 24                     |
| 10-20 years              | 15                     |
| 20 years +               | 5                      |
| <b>Total</b>             | <b>67</b>              |

*Source: JHT staff database and BDO analysis*

- Pay increases for 2010 have recently been determined with increments being awarded to those staff not already at the top of their grade.
- For the first time the retail price index shows a decline in the year (from September 2008 to September 2009), at a level of – 0.6%. Staff contracts are silent on what should happen in the event of a decline, and as explained above no cost of living award will be given, effectively representing a 0.6% pay increase for staff..



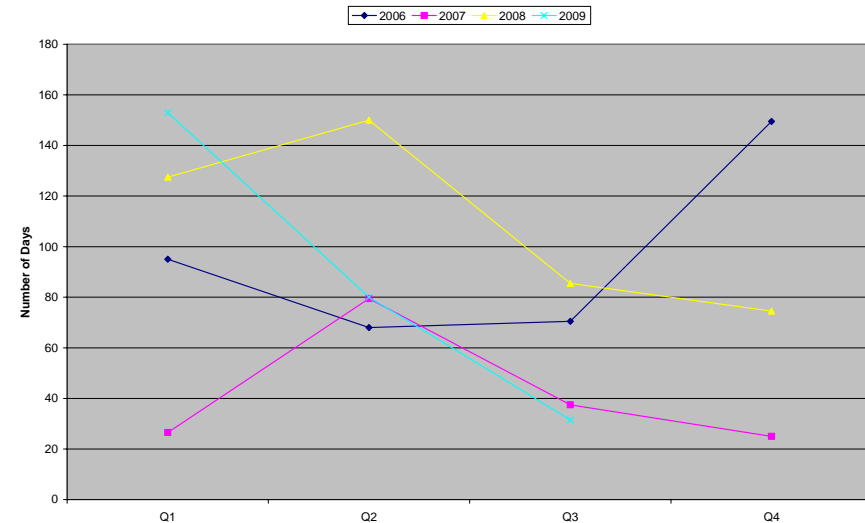
### ***Benchmarking to private sector salaries***

- Whilst much of the structure relating to pay and benefits at Jersey Heritage has origins in the States pay scales and packages because of the organisation's perceived status as a quasi government body, it is also important to comment on this in the context of salaries in Jersey as a whole.
- Information published about States of Jersey pay scales, together with a benchmarking exercise comparing to the private sector during 2009, has enabled us to present broad comparisons for senior management grades of Jersey Heritage, States of Jersey and the Private Sector, which are shown in the tables above.
- There is a large proportion of staff that are at the top of their pay scale in Jersey Heritage, whilst the far larger workforce of the States is likely to have staff throughout the range within a grade.
- When compared to the median pay scales in the private sector (as reported in a survey undertaken for the States) both Jersey Heritage and the States are paying less to staff undertaking senior roles.
- It is also likely that the employer pension contribution of 13.6% is larger than is generally available in the private sector, although no doubt some private sector organisations will offer similarly high rates.
- The pension scheme is a final salary scheme, albeit not such an attractive scheme now to new entrants, either in the States or those joining via employment at Jersey Heritage. This type of scheme is becoming very rare in the private sector as a result of the financial exposure caused by scheme deficits. As a result it can be viewed as a compensating benefit for any other areas in which the Trust cannot compete such as the provision of private healthcare.

### Performance assessment

- The Trust has invested time and money in the development of the performance appraisal system in recent months. Specialist services have been procured from a local company, which has been working with human resources and senior management to develop a full competencies framework. Appraisals were previously undertaken annually but these did not constitute a consistent application of the old framework.
- The Trust appears to manage performance issues proactively and well through its line management and senior management structure. This is apparent from our discussion of sickness and disciplinary issues with the human resources manager.
- Key statistics about sickness absence are provided to management, the Board of Trustees and ESC in the quarterly activity and performance reports. A summary of the key figures is presented in the tables opposite.
- Long term sickness has accounted for around 50% of total sickness in 2008 and 2009. Prior to this the data was reported only on a total basis and long term sick leave was not separately identified.
- The total sickness days reports in 9M 2009 show a significant downward trend which is very positive, although it should be noted that the number of sick days taken by permanent staff in Q2 and Q3 2009 is consistent with the level reported in 2007 and may reflect a return to a more normalised level of absence, following the end of long term sickness leave for certain individuals.
- In Q2 2008 there were 4 staff on long-term sick leave, which reduced to only 1 by the end of the year but increased again to 3 by Q1 2009. Most recent statistics (Q3 2009) show that there were no staff on long term sick leave during the quarter.

### Total sickness days – permanent staff



Source: JHT quarterly activity and performance report

### Long term sickness absence – number of days

|           | 2008           | 2008                 | 2009           | 2009                 |
|-----------|----------------|----------------------|----------------|----------------------|
|           | Number of days | % of total sick days | Number of days | % of total sick days |
| <b>Q1</b> | 94             | 74%                  | 101            | 66%                  |
| <b>Q2</b> | 104            | 69%                  | 39             | 49%                  |
| <b>Q3</b> | 22             | 26%                  | 0              | 0%                   |
| <b>Q4</b> | -              | 0%                   | tbc            | tbc                  |
|           | 220            | 50%                  | 140            | 53%                  |

Source: JHT comparison of terms of employment with States of Jersey and States of Jersey Pay Benchmarking reports

### Staff disciplinary actions and grievances

- The detailed review of the Trust's general ledger brought a major non-recurring spend in respect of employee matters to our attention, which at the time, caused significant financial pressure on the Trust. In 2006 and 2007 alone the cost of these issues was around £51,000.
- We recognise that the reasons for the issue arising were related to actions under previous management, and it is not necessarily of any value to comment on that after so much time has passed. The events that led to this also took place at a time when there was far less awareness of employment law matters and fewer precedents.
- It is clear from the procedures currently in place that such a situation is unlikely to arise again, for a number of reasons but primarily due to the ongoing support from Law At Work in relation to employment matters and the attaching insurance policy, which covers the Trust as long as they follow the advice received.
- In recent years there have been disciplinary issues although these have been infrequent. In 2008, when Jersey Heritage started reporting on the number of new and live disciplinary actions, there was only 1 case. In 2009 there were 2.
- The human resources manager is also intending to update the staff handbook and terms and conditions of employment, and advice on this is provided by Law At Work, within the retainer paid.

### Staff expertise

- It is important to consider the cost of staff in the context of the business and the qualifications, skills and experience required from employees.
- Whilst the comparison to States pay scales has been shown above, this seeks to compare the higher grades of the States manual workers grades with curators and conservators at Jersey Heritage. Whilst both require skilled individuals, the skill set required by the States for its skilled technicians is less specialist and more easily obtained than the curatorial skills and technical knowledge that is required of a curator of art, for example, at Jersey Heritage.
- It is therefore unlikely that the recruitment of an appropriate candidate for posts of this nature would be easy and in order to attract and retain an employee with the right skills the offering may need to be at the higher end of a range.
- This of course impacts the relationship between the organisation and certain of its staff. It is possible that for some of the more specialist roles the individual might be the only person on the Island with the correct skills and experience, and conversely the Trust might be the only organisation where that employee could undertake their role. It is however noted that some of these post holders have worked at Jersey Heritage for many years and for the majority of their working lives. As such these individuals are significantly experienced in their respective fields only in Jersey and not off-Island.
- An example of the recruitment issue faced by Jersey Heritage is the recruitment of the marketing and business development manager towards the end of 2007. The initial salary level advertised did not attract candidates of the calibre and experience required. This test of the market resulted in Jersey Heritage revisiting the job role, promoting it to a senior management

position and salary grade. This attracted interest from appropriate applicants and an appointment was made, with the successful individual having experience in UK not-for-profit organisations.

- Whilst the marketing skill set may have been available in Jersey, it is likely that in this case private sector remuneration and benefits were more attractive, hence there not being a reasonable comparison for pay rates on the Island.

### Potential redundancies

- The possibility of redundancies at Jersey Heritage has been widely known since summer 2009 as a result of scrutiny of the financial position. Jersey Heritage's Trustees and Directors had warned ESC of the structural issue in the business plan for 2009 – 2013.
- The possibility of redundancies reflects the seriousness of the financial issues that have been reported to ESC, and also made public. There are other possibilities to yield savings that are not insignificant (for example the reduction of the full time working week to 35 hours could save up to £75k). However, these measures alone would not be sufficient to balance the books.
- Based on preliminary budget figures, to continue the operations in the current form with appropriate spend on maintenance and a reasonable programme of exhibitions, the Trust would incur a deficit of around £550k in 2010. To create a break even position, which would represent a short term and fragile solution to the problem, net cost savings in the region of £600k will need to be achieved.
- The Trust is currently benefiting from some savings in the form of an unfilled post, the living history and volunteer co-ordinator roles which previously cost around [redacted] per annum.
- In addition the design team is currently operating at below normal levels as a result of one staff member reducing from a full time working week to two days per week.
- As explained above, the decision was recently made to implement the salary increments due to staff not already positioned at the top of their grade and the cost of living award was set at £nil (0%), despite the fall in the relevant RPI of 0.6%.
- We have already discussed with ESC the issue of restructuring costs, and that savings, particularly in relation to people, can not be realised overnight. There is recognition from the ministerial team and officers that this will need to be considered.
- Jersey Heritage has prepared an estimate of how the costs will be affected by the timeframe taken to make decisions. As the business is seasonal the staff cost savings will not arise consistently over the year, and conversely the lower monthly cost savings would be achieved by making decisions early in the year.

| Observation   | Issue  | Recommendation  |
|---|--|---|
| <p><b>Whilst salaries appear to be lower than the equivalent States salaries, implying that Jersey Heritage can deliver the services at a lower cost than government directly, it is difficult to compare job roles between the two organisations due to the specialist nature of a number of roles within the Trust.</b></p> <p><b>It is also difficult for non-heritage sector people to form an independent view of the appropriateness of the headcount, job roles and corresponding salaries</b></p> | <ul style="list-style-type: none"> <li>■ A more specialist and comprehensive exercise would be required to determine more precisely whether the headcount is (in general terms) excessive or appropriate.</li> <li>■ The skill set required by Jersey Heritage is in some cases unique, with only a single individual in the Island possessing the qualifications and experience to undertake a role. This could have led to increments or promotions that may not have been necessary in a different environment, for example where employees have job mobility and employers are able to select from a pool of appropriate staff.</li> </ul> | <ul style="list-style-type: none"> <li>■ In the event that the structural deficit was less significant it might be possible to identify a significant proportion of the required savings through a more detailed review of the roles and associated salaries within the organisation. However, given the magnitude of immediate cost savings that will need to be found (being around £600k) we would not recommend that further detailed reviews are undertaken.</li> <li>■ We understand from ESC that there will not be, in the medium to long term, significant additional money available and given that staff costs are the most significant proportion of running costs it will be inevitable that significant decisions around people will need to be taken.</li> </ul> |
| <p><b>There are additional adjustments that could be made to certain of the site related roles.</b></p>   | <ul style="list-style-type: none"> <li>■ Staff costs are currently higher than the minimum possible in relation to some site related roles, mainly being site guardians.</li> <li>■ Any changes to the business model in respect of these staff would however come with associated risks.</li> </ul>   | <ul style="list-style-type: none"> <li>■ An analysis of the risks and rewards should be undertaken to determine whether additional savings can be made by changing the staffing model.</li> </ul>   |

### 13 Areas of potential cost savings

- We have already discussed with ESC certain potential areas for cost savings.
- We have assisted in facilitating discussion between Jersey Heritage and ESC utilising the outputs from this review.
- Part II of this Report will detail cost saving proposals arising from these discussions.

## 14 2010 budget

- To be reviewed following agreement of strategy and production of budgets and forecasts by Jersey Heritage in due course.
- Again, this will be considered in Part II to this Report.