

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

**Jersey Heritage Trust  
Financial and Business Review**

**Part II – Review of JHT Proposals**

**April 2010**



**BDO Alto Limited**

<b><i>Term</i></b>	<b><i>Meaning</i></b>
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
Locum	Locum Consulting
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

## Report Contents

Contents .....	1
<b>1 Introduction .....</b>	<b>2</b>
Scope of work .....	2
Overview .....	2
Base Budget and Reforecast.....	3
<b>2 Review of proposals .....</b>	<b>4</b>
Admission income.....	4
Trading income .....	6
Sponsorship and similar income .....	6
Fees and charges .....	7
Sites and Collections expenses.....	8
Visitor Services, Learning and Business Development expenses ...	10
Jersey Archive and Collections .....	11
Management and Administration (central costs).....	11
<b>3 Sensitivities / risks .....</b>	<b>12</b>
Downside vulnerabilities.....	12
Upside opportunities .....	12
<b>4 Other matters .....</b>	<b>13</b>
Managing the residual annual deficit .....	13
Implementation costs .....	14
Capital expenditure requirements .....	14
Other matters.....	14

## 1 Introduction

### Scope of work

- This Part II to the Report should be read in conjunction with Part I, Detailed Findings. Specifically, this Part II considers proposals for financial savings and other efficiencies that have been proposed by Jersey Heritage following their review of the outputs of the BDO and Locum reports, and discussion with the ESC Ministerial Team.
- We have reported in summary form only in this Part II.

### Overview

- The BDO and Locum reports assumed an operating deficit of circa £550,000 for 2010. The final budget prepared by the Trust shows a budgeted deficit of £527,000 for 2010, before the impact of any proposed savings – as summarised in the first table opposite.
- Jersey Heritage has sought to mitigate this budgeted deficit as far as possible through identifying a number of cost savings and other efficiencies, and it now intends to implement these during 2010. These proposals were formally presented to the ESC Ministerial Team on 12 March 2010; this Part II to the Report summarises and analyses these proposals.
- The second table opposite shows the impact of the proposals on a normalised, i.e. an annualised, basis, and shows a reduced deficit of £208,000 (a reduction of £319,000). We note that the timing of the implementation of the proposals will determine the quantum of the savings that will be achieved in 2010; the full value of the proposed savings will be unlikely to be achieved in 2010 on the basis that they represent a full year savings, i.e. they assume that the proposals were implemented with effect from 1 January 2010.
- We refer to the implementation cost of the proposals later within this Report, as these are not reflected in the tables opposite.

### *Jersey Heritage – Base budget 2010*

	£'000
SoJ annual and other grants	2,100
Other income	1,437
<b>Total incoming resources</b>	<b>3,537</b>
Operating expenses	(4,023)
Societe Jersiaise grant	(41)
<b>Original (base) budgeted deficit</b>	<b>(527)</b>

*Source: JHT management and BDO Analysis*

### *Jersey Heritage – Reforecast 2010*

	£'000
Original budgeted deficit, as above	(527)
<u>Net effect of the Trust's proposals:</u>	
- Admission income	(15)
- Sites and Collections costs	220
- Visitor Services, Learning and Business Development	114
- Management and Administration (central costs)	-
<b>Normalised reforecast deficit</b>	<b>(208)</b>

*Source: JHT management and BDO Analysis*

## Base Budget and Reforecast

- The management of Jersey Heritage has been working since the start of the year on developing cost savings plans utilising the results of the review work undertaken by BDO and under guidance from ESC.
- The result of the exercise is a reforecast of their original budget, which was prepared on the basis of a full service provision with no fundamental change in the organisation's headcount or business model. The original budget also reinstated previously suppressed costs to ensure that, for example, full provision was made for a programme of temporary exhibitions, and maintenance spend in respect of the buildings that the Trust is responsible for.
- It is worth noting that the original budget for 2010 has not been able to be formally approved by the Trustees given that the Trust does not have sufficient funding for the year in order to commit to this level of spend. The original budget would leave the trust with a reported deficit for the year of circa £527,000, and a cash flow deficit likely to be at a similar level.
- We also note that the budgeted financial information is not yet prepared on a fully integrated, monthly basis as we recommended in Part I of our Report. As a result, there is no forecast or budgeted cash flow statement or balance sheet; thus we consider the overall forecasting process is still less robust than it might be, albeit is improved from where it started.
- We also reiterate that all figures are budgeted figures prepared by the Trust, and thus actual figures will differ and the differences may be significant.
- In Section 2 we have reviewed the proposals and the reforecast in order to establish whether the changes to original budget appear reasonable.

## Base Budget and Reforecast – 2010 (normalised)

	Budget £'000	Reforecast £'000
<b>Incoming resources</b>		
States Grant – ESC	2,040	2,040
States Grant – Other	60	60
	<u>2,100</u>	<u>2,100</u>
Admissions income	937	922
Trading income	316	316
Bank interest / investment income	1	-
Sponsorship and similar income	132	132
Fees and charges	51	51
	<u>3,537</u>	<u>3,521</u>
<b>Outgoing resources</b>		
Sites and Collections	(1,837)	(1,617)
Visitor Services, Learning and Business Development	(1,017)	(903)
Jersey Archive and Collections	(446)	(446)
Historic Building Service	(57)	(57)
Societe Jersiaise grant	(41)	(41)
Management and Administration (central costs)	(666)	(665)
	<u>(4,064)</u>	<u>(3,729)</u>
	<b>(527)</b>	<b>(208)</b>

Source: JHT management and BDO Analysis

- In Section 3 we have summarised the key sensitivities and risks to achieving a break-even position.
- In Section 4 we consider other matters that have been discussed as between ourselves, ESC and/or Jersey Heritage in order to identify measures that will enable the remaining normalised deficit to be managed, such that the Trust is able to achieve a break-even position and thus operate on a properly sustainable basis in future.

## 2 Review of Proposals

### Admission income

- The reforecast 2010 result records a net reduction of £15,000 in total admissions income, as shown in the table opposite.
- We understand that the budget for site admission income has been established based on the forecast footfall number, which is itself based on the 2009 reported income levels and also assumes a 4% decline to take account of an expected fall in the number of leisure visitors to the Island.
- The forecasts have been undertaken on an individual site basis and the methodology does not appear unreasonable as a method of budgeting for next year, although is still performed at a relatively high level. A (potentially) more robust method would be to estimate the footfall across the different categories of entrance (full paying adult, student, member and so on) and to calculate, using agreed ticket prices for the 2010 season, the total income arising. However, on the assumption that the mix of visitors remains broadly consistent there is unlikely to be a significant difference between the two methods of estimation (the actual results will of course vary).
- The admissions revenue at the Jersey Museum has been reduced to take account of the ‘exceptional’ admission levels in 2009 arising from the Marilyn Monroe exhibition. This has been estimated at 28% based on the increase in footfall from 2008 to 2009; the downward revision assumes that 100% of the increase in footfall between 2008 and 2009 was attributable to this exhibition, which appears a prudent assumption for forecasting purposes.
- The reforecast also assumes a further 10% decrease in footfall as a result of the closure of the Museum between January and Easter each year going forward (although we note that this did not occur in 2010). We compared this percentage to the number of paying

admissions between January and March 2008 (inclusive). In 2008, 13% of paying visitors were admitted to the Museum between January and March (March was considered a reasonable cut-off point given that the dates for Easter varies each year). At 13%, this would translate into a further loss of income of circa £4,000.

### Admission income analysis – 2010 (normalised)

	Budget £'000	Reforecast £'000
Jersey Museum	135	122
La Hougue Bie	60	60
Hamptonne	60	-
Mont Orgueil	331	331
Elizabeth Castle	288	288
Maritime Museum and Tapestry Gallery	130	110
	1,004	911
Season tickets	76	76
Children and OAP tickets	-	40
Less: rent payable AMF	(143)	(105)
	<b>937</b>	<b>922</b>

Source: JHT management and BDO Analysis

- We note that the income forecast is not related to ticket prices; this does not seem unreasonable given that the increases in 2010 are minimal and provides some additional prudence in the forecasts.
- However, the overall financial position of the Trust remains very sensitive to further declines in visitor numbers. Each 1% drop in footfall across all sites reduces the total revenue of the Trust by around £10,000. Some further footfall reduction is not a difficult scenario to imagine in the current economic environment, particularly when coupled with increasing on-Island competition,

for example the new interpretation/exhibition at the Jersey War Tunnels. Given that the Trust is forecasting a normalised deficit (after cost savings) of £208,000, a 1% reduction in footfall equates to £10,000 in lost admissions income and would increase the reported deficit by 5%.

- The new business model underpinning the reforecast assumes that Hamptonne will close to the public (and effectively mothballed) and opened only for a limited number of events, likely to be fewer than 6 per annum. Thus the reforecast assumes no income arising from Hamptonne, which appears prudent and provides some room for upside.
- All other sites remain unchanged in terms of public access, except the changes to Jersey Museum's season as already discussed and at the Maritime Museum, which would cease to open all year round and would be closed between November and Easter<sup>1</sup>.
- We have utilised Jersey Heritage data regarding admissions at the Maritime Museum in 2008 to comment on the forecast 15% reduction in income resulting from seasonal opening. The actual percentage of total admissions in that period in 2008 was 16%, and therefore the forecast 15% reduction in 2010 (normalised) appears reasonable.
- An additional £40,000 of income is included in the reforecast in respect of a change in strategy to charge some form of entrance fee to OAPs and children. We have not been provided with a robust calculation of this figure and understand that no clear strategy has been formulated yet about the nature and scale of these charges. As a result we cannot comment on the reasonableness of this estimate or the ability of the Trust to generate it. We can however compare it to the total ticket value of free admissions in 2008 (excluding

members), which was circa £200,000. The reforecast would appear to assume conversion of 20% of these free admissions to revenue.

- Finally, the contributions to the AMF (which are calculated as a percentage of ticket sales at Elizabeth Castle and Mont Orgueil) are assumed to be reduced from 23% to 17% under the reforecast scenario – we understand that this requires Ministerial approval. The alternative option for the Trust is to separate the castle ferry ticket price from the Elizabeth Castle admission revenue, and to apply the AMF contribution rate to the admission revenues only.

### **Final remarks**

- Season ticket (membership) income is unchanged in the reforecast compared to the original budget. It is broadly comparable with the total membership income achieved in 2009 (in fact it exceeds it by around £2,600). No adjustments have been made as a result of the closure of Hamptonne. We understand that Hamptonne was particularly popular with families and after school on weekdays. This provides some evidence to suggest that there may be some regular local visitors whose decision to purchase or renew a membership will be affected by Hamptonne's closure. However any attempt to estimate this is likely to be arbitrary as it is difficult to make a direct linkage; however, we note that this income stream could become more sensitive as a result of the reduced offering.
- A significant finding from this review is that the Trust is extremely sensitive to admissions footfall declines; based on the reforecast methodology, footfall would only need to decline by a further 5% to create an additional £50,000 deficit in the Trust. In the current economic environment it is not difficult to envisage a scenario whereby a decline of 5% might occur, particularly given that the exhibits and interpretation at all of the sites is old and in need of replacement / refreshment.
- Party mitigating this risk is the fact that this reforecast contains a greater level of financial provision for temporary exhibitions than

---

<sup>1</sup> Although we note that the Trust would intend to open the Maritime Museum during the February school half-term holiday, and the Occupation Tapestry Gallery on Holocaust Memorial Day

that invested in recent years. The total forecast spend in this area is £75,000 in 2010 as compared to a maximum spend of £40,000 (in a single year) since 2005. Temporary exhibits have previously delivered increases in footfall, although not all exhibitions can be expected to have the level of popular appeal that the Marilyn Monroe exhibit achieved in 2010.

### Trading income

- Trading income comprises concession fees (rental income from café and restaurant offerings and, in the past, commissions from retail concessions run by third parties), gross profit from retail and publications sales, but most significantly the Heritage Venues and Heritage Lets rental income. An analysis of trading income is included in the table opposite.
- Concession fees are reforecast at £40,000 for 2010. Rental from the Museum Brasserie accounts for circa £20-25,000 per annum. No concession fees will come from retail in 2010 because all retail operations have now been brought in-house, to be operated by JHT directly. Given the previously reported difficulties at the other sites in relation to the catering operations, we believe that sourcing an additional £15,000 of income could be ambitious.
- Gross profits from directly operated retail operations are budgeted to be £47,000. We commented in detail on the retail operations in Part I to our Report although the Trust believes their projected gross margin to be conservative in the context of the advice they received. As a new activity, this is likely to be an “unknown” for this year and could easily turn out to be (relatively) significantly lower (or indeed higher) than forecast.
- The income from Heritage Venues and Heritage Lets is forecast to be similar to 2009 levels. In general this would appear reasonable, although we would like to see a more robust estimate developed based on the current order book for wedding hire fees. We believe this to be a large part of the Heritage Venues business although the

financial information does not allow disaggregation of the income by nature of event. This is likely to come under pressure from other venues, such as Radier Manor, which is newly available for hire as a venue for events in 2010.

### Trading income analysis – 2010 (normalised)

	Budget £'000	Reforecast £'000
Concession fees	40	40
Retail – gross profit	47	47
Jersey Pass	3	3
Publications	18	18
Heritage Venues (net income)	116	116
Elizabeth Castle flat (net income)	14	14
Forts and Towers income	156	156
Less: transfer to F&T fund	(78)	(78)
	<b>316</b>	<b>316</b>

Source: JHT management and BDO Analysis

### Sponsorship and similar income

- Sponsorship and similar income (being the ‘Business Associates Scheme’) is analysed in the table on the following page.
- Sponsorship income is forecast at £91,500. This is unchanged from figures we were presented with at the end of 2009, although since then there have been a number of developments that we would have expected to negatively impact that figure.
- Specifically, the following items of income that are known or likely to be reduced (or fall away entirely) are:



- £23,000 sponsorship for Flash Days has reduced to circa £5,000.
  - £10,000 sponsorship of the Blampied exhibition; a sponsor had been identified towards the end of 2009, however withdrew their support subsequently. Whilst the Trust will seek alternative support in place of the withdrawn source of funding, this will not be an easy task in this current environment. The exhibition opened on 10 April 2010 and does not appear to be sponsored (based on a review of the website).
  - The forecast income also includes circa £20,000 from the Association of Jersey Charities. We were recently advised that this is likely to be questionable for 2010 given the priorities of the organisation and the fact that the Trust has obtained the maximum grant from the AJC in recent years.
  - Finally, corporate sponsorship of the Gold Card of £3,500 has been withdrawn with effect from 1 January 2010.
- As a result we consider £51,500 of this income to be “at risk”, unless there are other committed arrangements already in place to offset these losses.

### Fees and charges

- Fees and charges include the income Jersey Heritage generates from operating the signal station at Fort Regent on behalf of ESC, donations, archive and records management charges and other sundry items of income.
- The forecast income for 2010 of £51,000 is not dissimilar to 2009 (£55,000) and we therefore consider it a reasonable estimate for budgeting purposes.

### Sponsorship and similar income analysis – 2010 (normalised)

	Budget £'000	Reforecast £'000
Sponsorship	92	92
Business Associates Scheme	40	40
	<b>132</b>	<b>132</b>

*Source: JHT management and BDO Analysis*

### Sites and Collections expenses

- Sites and Collections costs are analysed in the table opposite. We have specifically commented only on two items, staff costs and Hamptonne site team costs (shaded in the table opposite). Other changes are not significant individually or in aggregate.
- Staff costs are analysed in further detail on the following page.
- Management and administration: senior management roles remain unchanged in the reorganised Jersey Heritage structure, including both the Site Manager and the Maintenance Manager. The site manager role is considered necessary whilst the Trust continues to open and operate five separate visitor sites.
- The maintenance manager role is preserved despite the loss of the team of three technicians and implementation of an outsourced solution for delivery of this function. The saving assumed by the Trust is 33% of the existing cost, with an outsourcing strategy expected to cost two thirds of the cost of employing the staff directly. This creates efficiencies as the Trust will be buying maintenance and technical staff time only when needed.
- The design team has typically been formed of two full time staff. However, one staff member has been working part time since Q3 2009 and therefore the trust has already been benefiting from this saving since that date (although it is has been included within the calculation of net savings). In the reorganised structure both these design team roles are made redundant and design work will be procured from third parties on a needs basis. The Trust has assumed that this outsourced cost will be the same as the existing payroll cost, although we note that no detailed cost estimate or analysis has been prepared based on external research.
- This represents another area of financial planning weakness, and additional research should be carried out by Jersey Heritage before finalising a budget for this cost.

### Sites and Collections expense analysis – 2010 (normalised)

	Variance £'000	Budget £'000	Reforecast £'000
Staff costs	192	1,027	835
Gardening sub-contractors		20	17
Cleaning sub-contractors		44	37
Site team – Jersey Museum		43	43
Site team – Hougue Bie		25	25
Site team – Hamptonne	(13)	25	38
Site team – Maritime Museum		35	35
Rent – Maritime Museum		86	86
Other costs – Maritime Museum		3	3
Site team – Mont Orgueil		7	7
Site team – Elizabeth Castle		3	3
Causeway – Elizabeth Castle		6	6
Transport vehicles – Elizabeth Castle		97	97
Depreciation – Elizabeth Castle ferry vehicles		41	41
Security		22	21
Motor vehicle expenses		12	12
Electrical expenses		8	8
Investment in retail and café concessions		23	23
Insurance and rates		77	73
Heat, light and water		135	109
Plumbing, stores and equipment maintenance		19	19
Sundry expenses		4	4
Marilyn Monroe exhibition		1	1
Blampied exhibition		43	43
Levine exhibition		14	14
Hidden Treasures exhibit		17	17
		<b>1,837</b>	<b>1,617</b>

Source: JHT management and BDO Analysis

- One site guardian role will be lost and a further two full-time positions will become part-time. There is no external cost arising from this change, which reflects the fact that one site will be closed with the exception of certain events, and to reflect a more efficient model across the other sites. Furthermore, an additional £40,000 will be saved through greater seasonality in the opening hours of remaining sites which reduces the need for such a high level of staff cover in the site guardian role.
- Fewer sites coupled with reduced opening hours also reduces the requirement for VSAs, where there is a further saving of circa £40,000 in this regard.
- We note generally that there would appear to be some opportunity to gain greater efficiencies by suppressing outsourced costs to a greater extent than is presented in the reforecast numbers.
- Finally as regards Sites and Collections expenses, we note that the Hamptonne site team costs of £38,000 in the reforecast is the best estimate of the costs of providing basic maintenance at the site, and other similar upkeep costs. Whilst the site will be mothballed, it will require ongoing maintenance (for example grass cutting) to enable it to open for a number of specific events during the year.

**Staff cost savings – Sites and Collections**

	Staff cost saving £	Outsource cost £	Net saving £
<b>Sites and Collections</b>			
Management and administration	-	-	-
Designers	75,583	(62,101)	13,482
Site Guardians	99,361	-	99,361
Technicians	94,990	(63,327)	31,663
Crew and Drivers	-	-	-
Cleaners	13,784	(6,487)	7,297
VSA's	40,204	-	40,204
	<b>323,922</b>	<b>(131,915)</b>	<b>192,007</b>

*Source: Jersey Heritage 2010 budget and BDO analysis*

### Visitor Services, Learning and Business Development expenses

- Visitor Services, Learning and Business Development costs are analysed in the table below.
- We have commented only on staff costs. Other changes are not significant individually or in aggregate.

#### Visitor Services (et al) expense analysis – 2010 (normalised)

	Variance £'000	Budget £'000	Reforecast £'000
<b>Visitor Services / Learning</b>			
Staff costs	119	453	334
Outsourced cost – living history		-	5
Education and research costs		14	19
Outreach and events costs		76	71
Flashdays		14	14
<b>Business Development</b>			
Staff costs / outsourced costs		166	166
Marketing costs		240	240
Forts and Towers expenses		44	44
Heritage Venues expenses		10	10
		<b>1,017</b>	<b>903</b>

Source: JHT management and BDO Analysis

- Staff costs are analysed in further detail in the tables opposite. The saving in management and administration costs arises from the loss of a part time researcher post.
- The social history curator position will become redundant although it is considered necessary to buy in some expertise in this area, resulting in a 50% net saving.

- The key area of staff saving arises from the loss of two positions in marketing (total cost £90,000), although the marketing outsourcing cost is currently forecast to be equal to the direct hire cost – proving scope for upside if this can be procured at a lower cost.

#### Staff cost savings – Visitor Services / Learning

	Staff cost saving £	Outsource cost £	Net saving £
<b>Visitor Services / Learning</b>			
Management and administration	6,521	-	6,521
Curators	33,706	(16,853)	16,853
Education staff	37,792	(18,896)	18,896
Living History and Volunteer support	144,361	(67,601)	76,760
	<b>222,380</b>	<b>(103,350)</b>	<b>119,030</b>

Source: Jersey Heritage 2010 budget and BDO analysis

#### Staff cost savings – Business Development

	Staff cost saving £	Outsource cost £	Net saving £
<b>Visitor Services / Learning</b>			
Management and administration	90,093	(90,093)	-
	<b>90,093</b>	<b>(90,093)</b>	<b>-</b>

Source: Jersey Heritage 2010 budget and BDO analysis

### Jersey Archive and Collections

- There are no changes between the budget and reforecast figures, which are summarised below for information.

#### Jersey Archive and Collections cost analysis – 2010 (normalised)

	Budget £'000	Reforecast £'000
Staff costs	365	365
Building maintenance	30	30
Archive, restoration and conservation expenses	43	43
Campaign expenses	5	5
Other expenses	3	3
	<b>446</b>	<b>446</b>

Source: JHT management and BDO Analysis

### Management and Administration (central costs)

- There are no changes between the budget and reforecast figures, which are summarised below for information.

#### Management and Administration cost analysis – 2010 (normalised)

	Budget £'000	Reforecast £'000
Staff costs	402	402
Cash collection charges	10	9
Communications	40	40
Stationary	16	16
Legal and audit fees	25	25
Strategic development (consultancy fees)	20	20
IT costs	32	32
Travel and entertainment	5	5
Staff training	32	32
Subscriptions and annual review	5	5
Health and safety	5	5
Bank charges and interest payable	10	10
Depreciation – IT equipment	48	48
Depreciation – motor vehicles	4	4
Depreciation – office equipment	7	7
Sundry expenses	5	5
	<b>666</b>	<b>665</b>

Source: JHT management and BDO Analysis

### 3 Sensitivities / risks

#### Downside vulnerabilities

- During the course of this review we have identified and made reference to a number of sensitivities and downside risks relevant to the Trust's budget and reforecast for 2010, and which would potentially impact the quantum of the operational deficit and thus the funding required by the Trust from ESC (in the absence of any other sources of funding).
- The figures being reported upon are budgeted and are normalised (annualised) figures for 2010. They therefore do not take account of the costs of implementation of organisational changes, and they also assume that all structural changes took effect from 1 January 2010. We discuss these matters further in Section 4.
- The table opposite presents an alternative downside case, based on key sensitivities identified during our review. This is not a 'worst' case, as other income and expenditure items may not arise as planned. However, the table opposite provides an alternative case in order to demonstrate the sensitivity of the budget / reforecast to certain key income and expenditure items.
- The budget sensitivity is intensified by the fact that the Trust has no liquid assets of its own available to cover any budget shortfall, and thus any negative result requires funding from outside of the Trust (i.e. from SoJ or ESC).
- In the table opposite we have added-back depreciation, as a non-cash item, to arrive at anticipated cash flow deficits. This will differ to the reported deficit (which would include non-cash items, principally depreciation).
- The alternative downside cash flow deficit has been computed at £252,000, albeit we again note that this is illustrative. There are some upside opportunities which we consider further opposite.

#### Jersey Heritage – downside sensitivity analysis

	£'000
Normalised reforecast deficit (page 2)	(208)
Depreciation charges (non-cash)	100
Anticipated (normalised) cash flow deficit	<u>(108)</u>
<b>Downside sensitivities</b>	
Museum admissions adjustment based on 2008 seasonality (page 4)	(4)
5% footfall decline to reflect aging exhibits and economic conditions (£10,000 per 1%) (page 5)	(50)
Concession fee vulnerability (page 6)	(15)
Retail gross profit, reduced from £47,000 to £24,000 (as per analysis in Part I to this Report)	(23)
Sponsorship income 'at risk' (page 7)	<u>(52)</u>
<b>Downside (normalised) cash flow deficit</b>	<b><u>(252)</u></b>

Source: BDO Analysis

#### Upside opportunities

- The following upside opportunities have also been identified, but have not been able to be quantified at this stage:
  - Hamptonne admission revenue on specific event openings;
  - Less spend on temporary exhibitions (see page 6);
  - Less spend on outsourced costs, particularly marketing spend (provisions of circa £365,000 have been provided for outsourced services in the reforecast);
  - Other cost saving opportunities that arise from, amongst other things, a reduced staff headcount.

## 4 Other matters

### Managing the residual annual deficit

- The annualised operating cash flow deficit has been computed as £108,000 per the Jersey Heritage reforecast (see page 12). As previously noted, this deficit (and any increase in it) will require financing from outside of the Trust given that the Trust has no liquid resources of its own.
- In addition, whilst the Trust does not produce a proper cash flow forecast currently, we are aware that in addition to the operating deficit it is also required to fund (i) a pre-1987 pension liability, at a current contribution rate of £28,000 per annum; and (ii) SoJ loan repayments of £27,000 per annum, the loan originally advanced to enable the Trust to build a depository store at Augres.
- Therefore, assuming the operating cash flow deficit is capped at £108,000 on an annual (normalised) basis, the Trust needs to fund that amount of additional funding plus sufficient to fund these two other annual outgoings; a net cash outflow of £163,000 per annum.
- Of course, the annual operating deficit will be impacted by future revenue changes and operating cost increases, for example annual staff salary increases – we provide considerable comment in this regard in Part I to this Report, and describe the financial position of the Trust as ‘fragile’.
- At this stage, the discussions between ESC and Jersey Heritage have identified a number of solutions to close the funding gap that currently exists, although these options will require the Minister to take a proposition to the States:
  - Obtain additional grant finance to cover the deficit: funded by the Treasury via ESC, this would be provided under a new service level agreement between ESC and the Trust;
  - Closure of the Maritime Museum and Occupation Tapestry Gallery: this would provide a net saving of circa £131,000 per annum, based on the 2008 result;
  - Obtain ‘central’ funding to recognise the role played by the Archive in the Public Records (Jersey) Law 2002: we note in Part I to the Report that the Archive services all of the States departments, as well as the Parishes and utilities. Either a ‘user pays’ charge or a central contribution to the costs of running the Archive (via the Chief Minister’s Department) calculated to reflect these responsibilities should be considered. The Archive is forecast to cost £446,000 in 2010, and we note in Part I to this Report that the current funding is not at a level that allows records to be archived in a proper time frame with a resultant (est. 22 year) backlog now arising;
  - Return Hamptonne to its owners (National Trust / Societe Jersiaise): this would provide a saving of circa £38,000 per annum (see page 9);
  - Obtain a two-year rent ‘holiday’ at the Maritime Museum; the annual rental is £86,000, and is the only third party rental paid by the Trust (paid to Jersey Harbours). Whilst this is a short-term measure, it would allow a decision to be taken about the long-term future of this site;
  - Request the States to waive the historic loan and pre-1987 pension liabilities, which would reduce annual cash outflow by £55,000;
  - Remove all formal learning: we estimate a further saving of up to circa £120,000;
  - Further increase seasonality in Elizabeth Castle opening.

### Implementation costs

- There will inevitably be costs associated with the implementation of the proposed changes that are reflected in the 2010 reforecast (for example, redundancy costs). These one-off costs will need to be funded from outside of the Trust. Detailed costings are being prepared by the Trust.

### Capital expenditure requirements

- We refer to the report of Locum Consulting issued in February 2010. The Locum report considers that provision of a sinking fund for future capital investment in the region of £465,000 per annum is required. This capital requirement is in addition to the revenue grant funding requirement discussed in detail within this Report.
- There will inevitably be, in addition, ad-hoc major capital funding requirements that will arise and that will require further funding by the States over the coming years, for example:
  - The construction of a new repository at the Archive, as we understand that the current archive repository could become full to capacity in around 7 years time;
  - A major refurbishment of Elizabeth Castle (both internal and external).
- These capital expenditure requirements have not been determined at this stage by the Trust in terms of timing or quantum.

### Other matters

- Formal leases and/or management agreements are required for all sites, and in particular we have previously flagged the need to deal with the Archive site as a matter of priority because no lease currently exists and thus the responsibilities of Jersey Heritage in respect of this site are not sufficiently defined.