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Arts in Jersey

Financial Advisory Report

DRAFT version (issued February 2015)

Messages

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Definitions, abbreviations and glossary of terms

Abbreviation	Meaning
FY13	Actual results for the financial year ended 31 December 2013
BDO	BDO Limited (Jersey)
EDD	The Economic Development Department
ESC	The Department for Education, Sport and Culture
JAC	Jersey Arts Centre Association
JAT	The Jersey Arts Trust
JOH	The Jersey Opera House Limited t/a Jersey Opera House
JOH Refurb Loan	Loan advanced to JAT by Barclays Bank plc on 5 July 1999 to fund improvements to the Jersey Opera House (£5.5m loan, repayable over 20 years at a fixed interest rate of 6.46%)
KPIs	Key performance indicators
SoJ	The States of Jersey

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Introduction

Background

ESC has commissioned BDO to undertake this financial review of the three principal grant funded arts organisations following advice from the Treasury Department that, in principle, an additional £500,000 per annum will be included in the next Medium Term Financial Plan (from 2016) and that, for 2015, that sum will be provided from budget carry forwards.

ESC have been advised by the Treasury Department that additional funding for 'the arts' to be included in the next Medium Term Financial Plan would be dependent, *inter alia*, on a closer working relationship being established between the three principal funded arts organisations.

A paper prepared by the Cultural Development Officer in October 2013 notes that the additional proposed funding sum of £500,000 *"... is considerably less than the requirements identified by the three funded organisations."* In fact, based on information provided by the organisations, it was suggested that the 'indicative funding requirement' could be £549,000 in 2014, rising to £918,000 in 2015 and £879,000 in 2016.

The Cultural Development Officer's paper suggests discussions *"... between [ESC] and the three funded organisations to identify priorities and consider whether existing structures are appropriate to deliver the best outcomes."*

Following initial meetings and consultations between the arts organisations and ESC in early 2014, it was agreed that the review should not proceed from any fixed assumption about organisational structures. The original scope of work provided by ESC included the preparation of *'costed alternatives for the future development and structure of the arts in Jersey'*. In fact, this review did not ultimately consider that there would be an operational and fiscal consolidation of the three organisations given their differing roles and the need to operate two separate venues. Based on the findings of our review, a single arts organisation could not be expected to generate significant financial cost savings whilst undertaking the same roles and delivering the same programme as the three organisations currently achieve independently. Nevertheless, the shared vision for the Arts Sector will be developed by the three organisations and opportunities for greater collaboration will be sought.

Therefore, this financial review has been undertaken in order to assist the development of a 'vision' for the arts sector, a process that is being led by the Cultural Development Officer and supported by an external consultant, [redacted] of BOP Consulting, working closely with the Jersey Arts Trust, Jersey Arts Centre Association and Jersey Opera House.

Scope of work

This Report covers those principal findings and matters we believe to be material in the context of our financial review. We have prepared this report from a number of sources, as set-out in this Report, and have met the following persons, individually (by organisation) and collectively:

- The Cultural Development Officer at Education, Sport & Culture;
- The Chairman and Managing Director of each of JAT, JOH and JAC;
- [redacted] of BOP Consulting, as consultant to ESC.

We wish to record our particular appreciation to the three organisations for the time and information that they have provided us during this review.

Key findings

We have summarised the key findings arising from our financial review in the Report. Our scope of work was set at a necessarily high level. It is intended that the key findings from our review be considered within the wider review of the arts sector being undertaken by ESC for the purpose of developing a shared 'vision' for the sector, being one of the requirements to support a bid for additional funding in the next Medium Term Financial Plan.

Within the Appendices we provide further analysis of, and comment on, the actual and forecast results of each organisation.

Addressing your scope (1)

Scope	Observations
Undertake a high-level analysis of the recent financial position of each of the three organisations, individually and on an aggregated basis, including a brief commentary on material income and expenditure line items.	▪ The total income and expenditures of the three principal grant funded arts organisations have been analysed in respect of FY11 to FY13 inclusive as part of this review, individually and in aggregate. ▪ Each organisation has identified funding as the key challenge facing it; the organisations all recognise that both grant funding and self-generated income is required to maintain and/or expand the current activity levels. Previous grant cuts and general funding pressures have necessitated active management of costs in all three organisations. ▪ The consolidated reported position shows, *inter alia*, grants totalling £1.62m were advanced by ESC to the organisations in FY13, of which £572,000 was received by JAT specifically for the purpose of servicing the JOH Refurb Loan. If the JOH Refurb Loan grant is not treated as a revenue grant (given it does not support annual operating activities *per se*), then the total revenue grant funding in FY13 was £1.05m versus total self-generated income of £1.37m. ▪ The organisations are clearly cognisant of their need to maintain an operating surplus and cash flow solvency and appear to have been successful in achieving that; we were told that the organisations will not take risks and then rely on SoJ to 'bail them out'. ▪ Whilst not specifically part of the scope of this review, from discussions held with each organisation no opportunities to make additional material cost savings were identified assuming current activity levels are maintained. ▪ However, it was noted by all three arts organisations that they were only delivering their current programme through the significant effort of their staff, led by the Chief Executives. We were advised that each Chief Executive is working significantly in excess of their contracted hours; this point was raised in the context that the current programme levels are not considered to be sustainable absent some additional resourcing in the future. ▪ The organisations have advised us that their financial performance (targeting break-even) should be assessed over a 3-5 year period, as income and expenditures often do not match, i.e. losses in one year may arise because of costs incurred that year utilising funds generated and reported as income in other financial years.

Addressing your scope (2)

Scope	Observations
Prepare a 'normalised' financial position for each of the organisations, e.g. the reallocation of balance sheet and income statement items relating to JOH to that organisation (some of these are currently included in the financial statements of JAT) to show the true funding amount that is currently being absorbed by each organisation.	▪ JOH was incorporated in 1998 and is directly owned by JAT. However, the Opera House building itself is owned by SoJ, via Jersey Property Holdings. ▪ JAT, as opposed to JOH or SoJ/Jersey Property Holdings, borrowed money from Barclays Bank in 2000 for the purpose of undertaking a major Opera House refurbishment. Therefore neither SoJ nor Jersey Property Holdings was the borrower, albeit SoJ effectively services the loan by way of an additional annual grant provided by ESC to JAT to cover the interest and capital payments on the loan facility. ▪ The reported financial position of JAT and JOH is distorted as a result of JAT having borrowed money to fund the Opera House refurbishment in 2000. Amongst other things, JAT (as opposed to JOH) accounts for the JOH refurbishment asset on its balance sheet, accounts for the loan service costs and records the additional grant to service the loan as its own income each year. ▪ A 'proforma' (normalised) income statement has therefore been developed for FY13, specifically: — including the JOH Refurb Loan grant within the results of JOH as opposed to JAT; — moving the associated JOH asset depreciation and loan interest cost to JOH from JAT; and — removing the one-off (non-cash item) extraordinary impairment loss suffered by JAT in FY13, arising from its vacation of the St James' Church premises. ▪ JOH do not agree that this 'proforma' treatment properly reflects the economic and funding situation that exists, and consider that this aspect of SoJ funding could alternatively (as one alternative only) be recorded by Jersey Property Holdings, as the owner of the building. This view in part recognises the fact that the JOH Refurb Loan arrangements were not taken by the current board of JOH and have never been reflected within the financial statements of JOH. ▪ However, we consider that this grant represents part of the overall funding by the SoJ to the 'arts sector' and needs to be reflected within the consolidated position of the three organisations, at least for the purposes of this review. ▪ On a 'proforma' basis, the percentage self-generated income achieved by JAT and JAC in FY13 was c.45% and JOH was c.66%%.

Addressing your scope (3)

Scope	Observations
Analyse the long-term agreed priorities and consider how they can be met.	▪ The three organisations are not currently forecasting any increase in their current role, given funding constraints. ▪ There are Service Level Agreements in place between each organisation and ESC/SoJ setting-out the requirements of each organisation in terms of role and programme deliverables based on existing grant levels (we have not reviewed those SLAs as part of this review or assessed each organisation's compliance with them). ▪ ESC receives annual 'business plans' from each organisation. In the case of JAT, for example, their 'Business Plan 2014' included an additional budget request of £350,000 in respect of FY14, and £590,000 in respect of FY15, to support the development of specific events, initiatives (including in relation to producing a cultural programme around the 2015 Island Games) and for 'grass roots' grants. ▪ However, no additional funding has been committed to the three organisations pending the output of this Review and the work being undertaken by [redacted] of BOP Consulting.

Addressing your scope (4)

Scope	Observations
Meet the Chair and CEO of each of the three funded organisations, alongside ESC representatives, in order to understand: • **The organisations's Business Plan and specifically plans to develop self-generated income to sustain current or expanded activities** • **Specific opportunities to share certain overhead costs/functions and resources, e.g. finance, personnel, administration, technical, marketing etc.** • **How a more joined-up approach to the Arts in Jersey could be achieved.**	▪ Meetings were held with the Chair and CEO of each of the three funded arts organisations. In addition, there were two round table sessions involving all three organisations as well as [redacted] and the Cultural Development Officer which were also attended (at least in part) by BDO. ▪ The activities of each organisation were discussed at the individual meetings, in particular (i) the ability to maintain the current activity levels; and (ii) how each organisation is driving increases in self-generated revenues: – In all three organisations, management identified funding as the key challenge facing them; – Efforts to increase self-generated income include identifying additional sponsors and benefactors and, in the case of JAC and JOH, developing the 'corporate' offer (both sponsorship and venue use); and – The organisations referred (amongst other things) to pressures on existing staff resources (JAT), below market rates of pay (albeit not yet externally validated) (JAC) and unfunded or under-funded costs including repairs and renewals (JOH). These cost pressures are considered to be, to some extent, barriers to continuing to deliver existing programme levels on current revenue budgets. ▪ The organisations confirmed their willingness to consider opportunities to collaborate further to reduce costs. Wages and salaries are a primary operating cost where efficiencies might ordinarily be expected to be found; however, we observed that staff levels were necessarily lean and were advised that those staffing levels are already the minimum levels necessary to operate each venue and/or deliver the current programme. Specific opportunities were discussed with each of the three arts organisations (this is not an exhaustive list): – Central corporate membership scheme. Both JAC and JOH are currently developing corporate membership offers, independently. – Shared marketing resources and initiatives, e.g. maximising the value of social media and promoting arts events in a coordinated fashion (each organisation markets to their own database). – Creating an 'Arts Development Fund'. ▪ These and other collaborative opportunities will need to be further explored by the organisations on a collective basis. ▪ This review was driven primarily by an opportunity for the three arts organisations to benefit from additional funding for the arts, to be sought by ESC in the next Medium Term Financial Plan. The establishment of an 'Arts Development Fund' into which each organisation could bid to support programme activities was viewed as a potential mechanism to provide some of the additional funding to the arts sector.

Addressing your scope (5)

Scope	Observations
Meet with Jersey Property Holdings to obtain more detailed estimates/information for: • **Ongoing annual maintenance costs of JOH** • **Ongoing annual maintenance costs of JAC** • **The potential to refurbish/extend the Jersey Arts Centre** • **On-going costs of the current accommodation being used by JAT/JAC staff.**	▪ We have not met with Jersey Property Holdings as part of this Review but comment on property matters as follows: ▪ JAT: since October 2013, the organisation has occupied office space in 3 Charles Street, St Helier on a peppercorn rent; the landlord is SoJ. This accommodation was 'offered' to JAT as an interim (5-year) solution until alternative office space could be procured following the loss of JAT's previous office space at St James' Church. JAT allows various arts groups/organisations to use its premises, including its boardroom, at no charge to those organisations. It is not clear what the longer-term accommodation arrangements for JAT will be and our understanding, based on our discussions with JAT management, is that JAT will continue to look to SoJ to provide that accommodation beyond the current 5-year term at a peppercorn rental. We note that the October 2013 paper prepared by the Cultural Development Officer refers to: *"... the Jersey Arts Trust and Jersey Arts Centre are occupying rental accommodation for a five-year period, the costs of which have yet to be apportioned. Jersey Property Holdings has indicated that it will be looking to ESC to meet these additional costs, although a formal request has yet to be submitted. In the long-term, advice from Property Holdings indicates that the annual cost of the current accommodation for the Jersey Arts Centre and Jersey Arts Trust ... is between £65,000 and £70,000. If the capital project to establish a new - or expanded - Arts Centre is not completed within this period, this on-going rental cost must be addressed."* ▪ JOH: a schedule has been prepared by Jersey Property Holdings setting out the estimated building maintenance costs for the Opera House. This schedule refers to 'proposed landlord expenditure to clear years 2012 to 2014 maintenance' totalling £533,271. The schedule also estimates the total expenditure for 12 years maintenance works (2015 to 2026) of £3.5m, or £293,102 per year. JOH have advised us that they are currently maintaining the premises on a 'shoe string budget' given that their annual operating budget has a very limited capacity to deal with repairs and renewals. It is not clear from the schedule what costs would ordinarily be expected to be landlord costs and what would be expected to be the responsibility of the tenant, and absent a property lease and a commitment from SoJ to cover any additional tenant maintenance costs, we are advised that the Board of JOH would be unable to commit to any additional property maintenance spend. *Continued ...*

Addressing your scope (5)

Scope	Observations
	▪ JAC: management advised us that annual maintenance costs are being minimised as the existing revenue budget lacks capacity to deal with any significant maintenance costs. SoJ have committed to a major spend on the existing premises; we understand that there is currently an allowance of £2m in the Long Term Capital Plan for 2017 for the refurbishment of the Phillips Street premises. ESC has established a project group, including representatives of the Arts Centre and Jersey Property Holdings, to prepare the paperwork to have the bid considered for formal inclusion in the forthcoming Medium Term Financial Plan. If successful, the funds would be applied to the existing building in a bid to address some of the shortcomings identified in a recent report for Jersey Property Holdings; consideration would, therefore, be given to structural, as well as cosmetic, improvements. The work of the Project Group is scheduled for completion in March/April 2015 and, if the bid is successful, the funding would be employed in 2017. Because of the limitations of the Philips Street building, the majority of the JAC administration is located in rented accommodation in Charles Street (under similar arrangements to JAT); this may also be addressed in the impending refurbishment.

Addressing your scope (6)

Scope	Observations
To meet with ESC and Treasury to discuss arrangements that could apply to the funding of the arts sector in the future.	▪ This Report is intended to be presented to Treasury at a joint meeting with ESC, to facilitate discussions concerning the future funding of the arts sector. ▪ The original scope of work provided by ESC included the preparation of '*costed alternatives for the future development and structure of the arts in Jersey*'. This aspect of the original scope necessarily assumed that a single arts organisation could be created to combine the activities of JAT, JAC and JOH. In fact, this review did not ultimately consider that there would be an operational and fiscal consolidation of the three organisations given their differing roles and the need to operate two separate venues. Based on the findings of our review, a single arts organisation could not be expected to generate significant financial cost savings whilst undertaking the same roles and delivering the same programme as the three organisations currently achieve independently.

Consolidated FY13

The 'reported' consolidated trading position

The table opposite provides a summary of the incomes and expenditures as reported in the latest audited financial statements of each organisation, for FY13, together with a number of comparable KPIs.

We note the following, specifically as regards the FY13 results of JAT:

- An annual grant received by JAT for the purposes of servicing the JOH Refurb Loan (£572,000), and the associated JOH asset depreciation (£150,132) and loan interest cost (£212,664) are reflected in arriving at the JAT operating profit;
- The recognition of the JOH Refurb Loan grant and the associated JOH asset depreciation and loan interest costs in JAT causes the KPIs in respect of JAT and JOH to be 'skewed'. An alternative 'proforma' income and expenditure presentation on page 11 results in these KPIs being more consistent across the three organisations;
- The extraordinary impairment loss recorded by JAT represented the write-off of the net book value of leasehold property improvements at St James' Church, where JAT had previously occupied office space up until October 2013.

BDO together with ESC met each organisation as part of this review, *inter alia* to discuss the financial position of each organisation.

It would appear in all three cases that, in part given funding constraints, each organisation is necessarily managing their financial situation actively to ensure that cash flow solvency is maintained. Our review of the FY13 trading and balance sheet positions of each organisation is consistent with that view.

Whilst not specifically part of the scope of this review, from discussions held with each organisation no opportunities to make further material cost savings are achievable based on current activity levels.

The 'reported' consolidated income statement

FY13 | reported	JAT	JAC	JOH	Total
Income				
Self-generated income	125,295	382,975	858,572	1,366,842
Grants from ESC	725,033	450,303	448,895	1,624,231
Interest	2,095	3,835	1,943	7,873
	852,423	837,113	1,309,410	2,998,946
Cost of Sales	(151,792)	(411,117)	(594,906)	(1,157,815)
Gross Profit	700,631	425,996	714,504	1,841,131
Operating Expenses				
Establishment	(1,004)	(112,580)	(154,611)	(268,195)
Administration	(279,098)	(332,945)	(549,842)	(1,161,885)
Financial	(212,664)	(56,542)	(5,364)	(274,570)
	(492,766)	(502,067)	(709,817)	(1,704,650)
Operating Profit/(Loss)	207,865	(76,071)	4,687	136,481
Transfer between funds[1]	(4,000)	61,410	–	57,410
Extraordinary impairment loss	(905,180)	–	–	(905,180)
Net Profit/(Loss) for the year	(701,315)	(14,661)	4,687	(711,289)
KPIs				
Self generated income %	14.7%	45.7%	65.6%	45.6%
Grant income %	85.1%	53.8%	34.3%	54.2%
Wages/salaries	£94,183	£415,017	£427,186	£936,386
Wages/salaries v income	11.0%	49.6%	32.6%	31.2%

Source: financial statements of each organisation for the year ended 31 December 2013, and BDO analysis.

[1] The Statement of Financial Activities for JAT and JAC both record transfers between Funds to arrive at a 'net profit/(loss)'for the year on unrestricted funds (i.e. operating activities).

Consolidated FY13

The 'reported' consolidated trading position (continued)

As shown in the table opposite, the underlying results achieved by all three organisations in FY13 show that they have managed to operate at close to the break-even point, which the Cultural Development Officer advises is what is assumed when the level of grant is set or reviewed (notionally at least).

The underlying trading position of each organisation in FY13 has been assessed as follows:

- The operating profit/(loss) is as reported on the previous page;
- The Statement of Financial Activities ('SOFA') presented in the signed financial statements of both JAT and JAC record transfers between restricted and unrestricted funds to arrive at a 'net profit/(loss) for the year' on unrestricted funds (i.e. the net profit/ loss on operating activities); these transfers are reflected opposite;
- The JAT operating profit has been adjusted to remove the JOH Refurb Loan grant of £572,000, less associated asset depreciation (£150,132) and loan interest costs (£212,664). In actuality, all of the £572,000 is used to service the loan interest and annual capital loan repayment, and therefore none of this amount is available for other uses in JAT and does not form part of JAT's annual operating cash flow.

The organisations advised us that their financial results should be assessed over a 3-5 year period and not in any one year in isolation; this is because the incomes and expenditures often do not match, i.e. losses arising in one year may simply have arisen because costs incurred in that year are utilising funds generated and reported as income in other financial years.

In the appendices we consider the results of each of the organisations over a 3-year period.

Underlying trading position

FY13 | underlying trading	JAT	JAC	JOH	Total
Operating Profit/(Loss)	207,865	(76,071)	4,687	136,481
Transfer between funds	(4,000)	61,410	–	57,410
Exclude JOH Refurb Loan impact	(209,204)	–	–	(209,204)
Net Profit/(Loss) for the year	(5,339)	(14,661)	4,687	(15,313)

Source: financial statements of each organisation for the year ended 31 December 2013, and BDO analysis.

Proforma FY13

The ‘proforma’ consolidated trading position

The table opposite provides an alternative ‘proforma’ presentation of the incomes and expenditures of the three organisations, for analysis purposes only. This alternative presentation reflects the following adjustments:

- The JOH Refurb loan grant of £572,000 is treated as JOH income as opposed to JAT income. Similarly, the JOH asset depreciation charge of £150,132 and the JOH Refurb Loan interest expense of £212,664 have been reallocated from JAT to JOH, given the assets (acquired using the JOH Refurb loan) are in use in the JOH business.

  These items are considered by JOH management to reflect capital as opposed to revenue account items, and we therefore net them together and show them after operating profit as ‘Net JOH Refurb Loan impact’ to arrive at the net profit for the year.

  JOH do not agree that this ‘proforma’ treatment properly reflects the economic and funding situation that exists, and consider that this aspect of SoJ funding could alternatively (as one alternative only) be recorded by Jersey Property Holdings, as the owner of the building.

  However, we consider that this grant represents funding by the SoJ to the ‘arts sector’ and needs to be reflected within the consolidated position of the three organisations for the purposes of this review (as opposed to, say, being included within Jersey Property Holdings, a non-arts sector organisation that is outside of this review scope);

- The extraordinary impairment loss of £905,180 incurred by JAT has been excluded from the ‘proforma’ result, as it is an exceptional non-recurring non-cash item connected to the St James’ Church property.

The adjustments described above result in the KPI metrics for percentage of self generated income for JAT and JAC being consistent at c.45%, and a higher percentage of c.66% being achieved at JOH.

The ‘proforma’ consolidated income statement

FY13 | proforma	JAT	JAC	JOH	Tota
Income				
Self-generated income	125,295	382,975	858,572	1,366,842
Revenue grants from ESC	153,033	450,303	448,895	1,052,231
Interest	2,095	3,835	1,943	7,873
	280,423	837,113	1,309,410	2,426,946
Cost of Sales	(151,792)	(411,117)	(594,906)	(1,157,815
Gross Profit	128,631	425,996	714,504	1,269,131
Operating expenses				
Establishment	(1,004)	(112,580)	(154,611)	(268,195
Administration	(128,966)	(332,945)	(549,842)	(1,011,753
Financial	–	(56,542)	(5,364)	(61,906
	(129,970)	(502,067)	(709,817)	(1,341,854
Operating Profit/(Loss)	(1,339)	(76,071)	4,687	(72,723
Extraordinary impairment loss	–	–	–	–
Transfer between funds	(4,000)	61,410	–	57,410
Net JOH Refurb Loan impact	–	–	209,204	209,204
Net Profit/(Loss)	(5,339)	(14,661)	213,891	193,891
KPIs				
Self generated income %	44.7%	45.7%	65.6%	56.3%
Revenue grant income %	54.6%	53.8%	34.3%	43.4%
Wages/salaries	£94,183	£415,017	£427,186	£936,38
Wages/salaries v income	33.6%	49.6%	32.6%	38.6%

Source: financial statements of each organisation for the year ended 31 December 2013, and BDO analysis.

Appendix 1

Jersey Arts Trust

Background

Introduction

We met with management of JAT as part of this review process, key points arising are summarised in this Appendix 1.

There is no one central body responsible for 'Arts in Jersey'.

Since the introduction of the States Cultural Strategy in 2006, JAT has been working to develop a new role as an arts development agency (as opposed to having a role of 'owning' or otherwise overseeing the two venue operators, being the operators of the Arts Centre and Opera House).

Grant funding from ESC was increased from circa £90,000 to £152,000 in 2010 to fund the continued activities of JAT. The grant remains at that level.

In March 2012, JAT released a discussion paper titled 'Jersey Creative – The Arts and Cultural Industries: A New Approach', which set out a proposed approach and ambition for JAT, in part to expand focus on the arts and what could be achieved by JAT to contribute toward wider Government objectives, e.g. through 'cultural diplomacy'.

Meanwhile, and absent any change in grant funding since 2010, JAT has continued to deliver and expand its current programme. That programme growth has been achieved through increasing corporate partnerships including sponsorship of specific programmes, e.g. with [redacted], [redacted], [redacted] and [redacted]. JAT has also provided mentoring-type support to local events such as the Liberation Festival, Branchage and the Eisteddfod.

However, resources are now stretched. For example, we are advised that the Director is necessarily working evenings/weekends to deliver the programme, and we are warned that this is not sustainable.

JAT would like to see the core operating costs being grant funded, with the corporate partners supporting specific programmes; SoJ Departments would then be able to fund specific programmes that benefit their own activities (i.e. the programmes themselves would be budgeted to break-even).

Current financial situation

Management advised that there is no desire to reduce the existing JAT role to fit the existing budget, but the current programme is deemed to be unsustainable on existing income levels; it should also be noted that JAT are required themselves to allocate £45,000 of their annual ESC grant funding to support community arts activities, i.e. that element is not available to use to fund the operating costs of JAT.

A cash flow break-even position was achieved by JAT in FY13, excluding the impact of the JOH Refurb Loan and the extraordinary impairment loss (i.e. write-off of the carrying value of fixed assets in St James' Church, which was vacated in favour of the Jersey Youth Service).

A modest budget surplus is predicted in FY14 and a deficit of circa £50,000 is currently predicted for FY15 (described to us as a 'manageable' deficit).

Management consider that trading performance should be considered on a rolling (say) 3 to 5 year basis, because incomes and expenditures often do not match, i.e. losses arising in one year may simply have arisen because costs incurred in that year are utilising funds generated and reported as income in other financial years.

Opportunities

Additional opportunities outside the existing programme are unfunded, in particular initiatives linked to 'cultural diplomacy'.

JAT consider that the creation of an 'Arts Development Fund' would be a means to enable some additional funding to flow the arts sector, enabling both individual bids from arts organisations or joined-up bids, for example to develop programmes of events linked to, say, the World War I centenary in 2014 or the Island Games in 2015.

JAT are open to further exploring other collaborative initiatives with JAC and JOH, e.g. around joint marketing and listing of arts programmes, or to create some central marketing resources in the future.

Income and expenditure

Income

The table opposite shows the reported trading position of JAT for FY11 to FY13 inclusive.

Elsewhere we have discussed the ESC funding for the JOH Refurb Loan service and on the following page a 'proforma' is prepared excluding this funding as it is not an operating cash flow *per se*. If this element of the grant funding is ignored, then we comment on income as follows:

- Self-generated income has increased by a factor of 4 times in 3-years, and in 2013 accounted for £125,295 of income. In FY13, this income stream included a grant of £37,150 from the [redacted], £24,605 from [redacted] and £16,079 from [redacted].

  As regards the [redacted], we note that it has become a key partner of both JAT and JAC, and it appears that their programmes would not have been delivered in the same manner without this funding from [redacted]. [redacted] is using JAT to assist in the distribution of grants to the arts sector, and the Foundation has also funded JAT to recruit a Visual Arts Officer (28 hours pw) for up to 2-years, from February 2014.

- ESC grant funding has declined in the period by £7,255, or 4.5%.

Expenditure

Cost of sales comprises 'activity costs', i.e. institutional and individual grant awards, and the direct costs of programme activities.

Operating expenses include loan interest and depreciation connected with the JOH Refurb Loan and associated JOH assets purchased with that loan; if the loan interest and depreciation costs are excluded, then the total operating cost of JAT in FY13 was £129,970, of which £94,183 was staff wages (average 3 staff members only in FY13, including the Director).

The 'reported' income statement

JAT | reported	2011	2012	2013
Income			
Self-generated income	31,828	77,691	125,295
ESC grant funding	160,288	158,778	153,033
ESC funding for JOH Refurb Loan service	571,807	571,952	572,000
Interest	147	2,222	2,095
	764,070	810,643	852,423
Cost of Sales	(90,064)	(92,267)	(151,792)
Gross Profit	674,006	718,376	700,631
Operating expenses	(520,061)	(504,464)	(492,766)
Operating Profit/(Loss)	153,945	213,912	207,865
Extraordinary impairment loss	(2,000)	(3,000)	(905,180)
Transfer between funds	–	–	(4,000)
Net Profit/(Loss) for the year	151,945	210,912	(701,315)
KPIs			
Self generated income %	4.2%	9.6%	14.7%
ESC grant funding %	21.0%	19.6%	18.0%
ESC funding for JOH Refurb Loan service %	74.8%	70.6%	67.1%
ESC total funding %	95.8%	90.1%	85.1%
Wages/salaries	£72,358	£70,957	£94,183
Wages/salaries v income	9.5%	8.8%	11.0%

Source: financial statements of JAT for 2011, 2012 and 2013, and BDO analysis.

[1] The Statement of Financial Activities for JAT records transfers between Funds to arrive at a 'result for the year' on unrestricted funds (i.e. operating activities).

Proforma results

Adjustments to arrive at a ‘proforma’ result

The table opposite provides an alternative ‘proforma’ presentation of the incomes and expenditures of JAT, for analysis purposes only. This alternative presentation reflects the following adjustments:

- The JOH Refurb loan grant (FY13: £572,000) is excluded, and similarly the JOH asset depreciation charge (FY13: £150,132) and JOH Refurb Loan interest expense (FY13: £212,664) have been excluded, given the assets (acquired using the JOH Refurb loan) are in use in the JOH business.

- The extraordinary impairment loss of £905,180 incurred by JAT in FY13 has been excluded from the ‘proforma’ result, as it is an exceptional non-recurring non-cash item connected to the St James’ Church property.

The proforma net profit/(loss) for FY11-FY13 totals a loss of £5,000 only; this demonstrates that JAT have managed an approximate break-even result over the past three years. The proforma result also evidences the growth in self-generated income from 16.6% to 44.7% over the three year period.

Summary historic ‘proforma’ results

JAT | proforma	2011	2012	2013
Income			
Self-generated income	31,828	77,691	125,295
ESC grant funding	160,288	158,778	153,033
ESC funding for JOH Refurb Loan service	–	–	–
Interest	147	2,222	2,095
	192,263	238,691	280,423
Cost of Sales	(90,064)	(92,267)	(151,792)
Gross Profit	102,199	146,424	128,631
Operating expenses	(120,360)	(122,925)	(129,970)
Operating Profit/(Loss)	(18,161)	23,499	(1,339)
Extraordinary impairment loss	–	–	–
Transfer between funds	(2,000)	(3,000)	(4,000)
Net Profit/(Loss)	(20,161)	20,499	(5,339)
KPIs			
Self generated income %	16.6%	32.5%	44.7%
ESC grant funding %	83.4%	66.5%	54.6%
ESC funding for JOH Refurb Loan service %	n/a	n/a	n/a
ESC total funding %	83.4%	66.5%	54.6%
Wages/salaries	£72,358	£70,957	£94,183
Wages/salaries v income	37.6%	29.7%	33.6%

Source: financial statements of JAT for 2011, 2012 and 2013, and BDO analysis.

Balance sheet

Reported balance sheet

The table opposite analyses the reported balance sheets of JAT as at 31 December 2011, 2012 and 2013.

We note the following as regards the balance sheet position of JAT:

- Tangible fixed assets reduced significantly in FY13 as a result of the extraordinary impairment loss and write-down of assets previously in use at St James' Church.

- Other fixed assets with a net book value of £5.4m as at 31 December 2013 are JOH operational assets arising from the 2000 refurbishment.

  It appears that neither JAT, as legal owner, or JOH, as 'user' of these assets, are exercising active financial management of this balance, i.e. identifying assets no longer in use, or re-assessing depreciation rates or impairments.

- The balance sheet reflects JAT's investment in JOH, as 100% owner of JOH. However, it does not consolidate JOH in its operating results on the basis that, *"... in the opinion of the [JAT] Trustees, the control of the assets, operations and management of that Trust (sic) vest with an independent Board of directors."*

- Creditors due within one year principally comprises loan amortisation due within 12 months on the JOH Refurb Loan, together with accrued loan interest. In FY13, the total creditor due within one year relating to the JOH Refurb Loan was £413,959, which is paid via the additional ESC grant received each year and discussed elsewhere.

  Excluding this loan liability (which is covered by the separate grant), JAT would have a net current asset position.

- Creditors due after one year comprise, solely, the balance of the JOH Refurb Loan that is not due within one year.

Reported

JAT | reported	2011	2012	2013
Fixed assets			
Tangible fixed assets	931,578	906,415	3,269
Other fixed assets (JOH assets)	5,703,742	5,553,610	5,403,478
Investments (JOH shares)	1,000	1,000	1,000
	6,636,320	6,461,025	5,407,747
Current assets			
Debtors	2,938	3,852	3,000
Cash at bank and in hand	431,506	168,089	302,340
	434,444	171,941	305,340
Creditors: due within one year	(733,977)	(437,818)	(578,396)
Net current liabilities	(299,533)	(265,877)	(273,056)
Creditors: due after one year	(3,471,616)	(3,119,065)	(2,759,923)
Net assets	2,865,171	3,076,083	2,374,768

Source: financial statements of JAT for 2011, 2012 and 2013, and BDO analysis.

Appendix 2
Jersey Opera House

Background

Introduction

We met with management of JOH as part of this review process, key points arising are summarised in this Appendix 2.

JOH is owned by JAT, albeit operates autonomously. However, the ownership structure explains why funding of the Opera House refurbishment in 2000 was undertaken through JAT, as discussed elsewhere. One impact arising from the way the refurbishment was funded means that JOH do not have the assets (or liability) recorded on their balance sheet and there is no active management of the asset list by JOH, which needs to be resolved (JOH is effectively ‘asset light’ from a balance sheet perspective, and JAT is ‘asset heavy’).

The Board of JOH has previously expressed concerns to ESC regarding the level of grant funding in the context of the actual and contingent liabilities of JOH, and the personal liability position of directors in a corporate entity. For example, the Opera House property is not currently subject to a formal lease from SoJ (Jersey Property Holdings), and the responsibilities of Landlord and Tenant are therefore not clearly defined. The directors of JOH are unwilling to enter into a lease that allocates further responsibilities to the company, e.g. tenant maintenance obligations, in the situation where the company cannot afford to incur any additional costs including property maintenance.

Notwithstanding these issues, JOH has managed within its existing budget and delivering a busy performance programme; management consider that income has been maximised. In part this income achievement has been made possible through the use of fiscal stimulus money to refurbish certain areas including the cafe, studio and upper bar; and private donations to pay for equipment needed to screen live performances in the Opera House, sound system and hearing loops and refurbishment of the Steinway piano; without which the incomes would be lower and the financial situation would be “dire”.

However, there are major expenditure items on the horizon and, currently, no means of paying for them; e.g. Jersey Property Holdings have prepared a schedule estimating total expenditure for 12 years maintenance works (2015 to 2026) of £3.5m, or £293,102 per year.

Current financial situation

A break-even position has been achieved in FY13 and JOH is forecasting a break-even position or small surplus in FY14 to FY16 (excluding accounting charges for depreciation).

Opportunities

The membership base currently extends to approximately 120 people only.

A corporate entertainment and membership product is being developed to increase self-generated income. JOH are keen to explore whether there is opportunity to develop this product alongside JAC, who are also developing a corporate offer.

Income and expenditure

Income

The table opposite shows the reported trading position of JOH for FY11 to FY13 inclusive.

We note that the two comparative periods (FY11 and FY12) are 18 month periods as opposed to being 12 month periods, and are therefore not directly comparable to FY13.

We comment further on income as follows:

- Self-generated income has increased as a percentage of total income from 59.3% to 65.6% through the review period.

  Income is generated primarily from ticket sales, theatre and studio hire, donations and food and beverage sales. Ticket sales in FY13 were £488,745, or 57% of total self-generated income.

  We note that food and beverage income in FY13 was £207,055, or 24% of total self-generated income.

- ESC grant funding declined by approximately £11,000 on a comparable 12 month basis, between FY11 and FY13.

Expenditure

Cost of sales comprises incoming show fees and food and beverage costs in the main. The gross margin on food and beverage sales is 24% in FY13, which is relatively low and may provide some scope for review and improvement.

Operating expenses in FY13 include establishment costs (e.g. heat, light and water, cleaning, repairs, insurance, telephone and rate) of £155,000, and administrative expenses of £550,000, of which £427,186 comprises wages and salaries. Management have confirmed that to necessarily manage costs to a minimum, given continual funding pressures, the total staff base has been reduced over time to a minimum number required to operate the theatre; the Opera House, like the Arts Centre, is supported by volunteer stewards at every performance.

The 'reported' income statement

JOH | reported	18m 30/06/11	18m 31/12/12	12m 31/12/13
Income			
Self-generated income	1,009,514	1,409,568	858,572
ESC grant funding	689,754	702,550	448,895
Interest	1,764	2,342	1,943
	1,701,032	2,114,460	1,309,410
Cost of Sales	(781,620)	(1,032,360)	(594,906)
Gross Profit	919,412	1,082,100	714,504
Operating expenses	(907,760)	(1,031,829)	(709,817)
Net Profit/(Loss) for the year	11,652	50,271	4,687
KPIs			
Self generated income %	59.3%	66.7%	65.6%
ESC grant funding %	40.5%	33.2%	34.3%
Wages/salaries	£543,293	£615,578	£427,186
Wages/salaries v income	31.9%	29.1%	32.6%

Source: financial statements of JOH for 2011, 2012 and 2013, and BDO analysis.

Proforma results

Adjustments to arrive at a 'proforma' result

The table opposite provides an alternative 'proforma' presentation of the incomes and expenditures of JOH, for analysis purposes only. This alternative presentation reflects the following adjustment:

- In FY13 (comparative data for FY11 and FY12 is not available) the JOH Refurb loan grant of £572,000 is treated as JOH income as opposed to JAT income. Similarly, the JOH asset depreciation charge of £150,132 and the JOH Refurb Loan interest expense of £212,664 have been reallocated from JAT to JOH, given the assets (acquired using the JOH Refurb loan) are in use in the JOH business.

  JOH do not agree that this 'proforma' treatment properly reflects the economic and funding situation that exists, and consider that this aspect of SoJ funding could alternatively (as one alternative only) be recorded by Jersey Property Holdings, as the owner of the building.

  However, we consider that this grant represents funding by the SoJ to the 'arts sector' and needs to be reflected within the results of one of the arts organisations for the purposes of this review (as opposed to, say, being included within Jersey Property Holdings, a non-arts sector organisation that is outside of this review scope).

  These items are considered by JOH management to reflect capital as opposed to revenue account items, and we therefore show them after operating profit as 'Net JOH Refurb Loan impact' to arrive at the net profit for the year.

The proforma operating profit/(loss) for FY11-FY13 (in this case, covering a four year period) totals a profit of £66,610; this demonstrates that JOH have managed not to trade at a loss in this period. In terms of cash flow, it seems that the 'profits' have been used to invest in some tangible fixed assets; in this same period, fixed asset additions of £120,000 have been made.

Summary historic 'proforma' results

JOH | proforma	18m 30/06/11	18m 31/12/12	12m 31/12/13
Income			
Self-generated income	1,009,514	1,409,568	858,572
ESC grant funding	689,754	702,550	448,895
Interest	1,764	2,342	1,943
	1,701,032	2,114,460	1,309,410
Cost of Sales	(781,620)	(1,032,360)	(594,906)
Gross Profit	919,412	1,082,100	714,504
Operating expenses	(907,760)	(1,031,829)	(709,817)
Operating Profit/(Loss)	11,652	50,271	4,687
Net JOH Refurb Loan impact			209,204
Net Profit/(Loss)			213,891
KPIs			
Self generated income %	59.3%	66.7%	65.6%
ESC grant funding %	40.5%	33.2%	34.3%
Wages/salaries	£543,293	£615,578	£427,186
Wages/salaries v income	31.9%	29.1%	32.6%

Source: financial statements of JOH for 2011, 2012 and 2013, and BDO analysis.

Balance sheet

Reported balance sheet

The table opposite analyses the reported balance sheets of JOH as at 30 June 2011, 31 December 2012 and 31 December 2013.

We note the following as regards the balance sheet position of JOH:

- Tangible fixed assets comprise fixtures and fittings and plant and equipment with an original cost of £196,000.

  As discussed elsewhere, JAT hold assets on their balance sheet with an original cost of £7.5m and a written down value of £5.4m relating to the refurbishment of the Opera House in 2000. It appears that neither JAT, as legal owner, nor JOH, as ‘user’ of these assets, are exercising active financial management of this £5.4m balance, i.e. identifying assets no longer in use, or re-assessing depreciation rates or impairments.

- Current assets principally comprise cash.

- Other creditors and advance sales principally comprise the latter; at 31 December 2013 advance ticket sales were £118,000.

JOH maintained a positive net current asset and net asset position at all three period ends.

Reported

JOH | reported	2011	2012	2013
Fixed assets			
Tangible fixed assets	55,111	91,673	86,273
Current assets			
Cash in hand and at bank	395,417	254,151	317,538
Trade debtors	3,738	10,485	774
Other debtors and prepayments	20,084	6,216	7,134
Stock	2,461	9,079	8,498
	421,700	279,931	333,944
Creditors: due within one year			
Trade creditors	29,283	91,334	69,955
Deferred income	233,551	1,950	4,125
Finance leases	–	18,829	12,405
Other creditors and advance sales	100,984	85,099	143,953
	363,818	197,212	230,438
Net current assets	57,882	82,719	103,506
Total assets less current liabilities	112,993	174,392	189,779
Creditors: due after one year	–	(11,128)	–
Net assets	112,993	163,264	189,779

Source: financial statements of JOH for 2011, 2012 and 2013, and BDO analysis.

Appendix 3

Jersey Arts Centre Association

Background

Introduction

We met with management of JAC as part of this review process, key points arising are summarised in this Appendix 3.

JAC is a membership-led organisation, with there being approximately 900 members currently (or 1,600 if individual family members are counted). A key strand of JAC's future self-generated income development is determining how to grow the membership base still further, and a membership review has been undertaken during 2014 in this regard.

JAC have advised us that a balanced financial budget can be maintained at all times, however they are reluctant to determine their programme based only on performances that have the ability to break-even or produce a 'profit'.

Similarly, whilst there may be opportunity to increase hire charges for the Arts Centre venue commercially, the Association does not wish to pursue a charging structure that makes it unaffordable for local community arts groups to use the Centre. Indeed, we are advised that both diversity of artistic programme and maintaining access to community groups are requirements of the SLA with ESC.

JAC consider that pay rates for the majority of its management and staff are below market rate, albeit no formal study has been commissioned. Increasing the current level of ESC grant is seen by management as necessary to address this pay rate issue.

Despite these challenges, the Arts Centre management have operated on a prudent basis and have confirmed that they would not rely on ESC or SoJ to 'bail them out' for risk taking. JAC management confirmed that they have continued to deliver a busy programme using a committed, but lean staff base. However, similar to both JAT and JOH, this relies on the Director as well as management and staff operating at above maximum capacity, which is not sustainable in the medium term.

Current financial situation

In FY13, JAC reported a loss of £14,661 on its unrestricted operating fund. Full year forecasts for FY14 and budgets for FY15 were not finalised at the time of our meetings with JAC.

Similar to JAT, the [redacted] has become an important contributor to the funding of JAC in terms of supporting specific programme activities.

Opportunities

A corporate entertainment and membership product is being developed to increase self-generated income. Similar to JOH, JAC are keen to explore whether there is opportunity to develop this product alongside JOH, who are also developing a corporate offer.

Other opportunities to develop self-generated income, and/or generate some additional cost efficiencies, that are being considered by JAC include:

- Continuing to develop the existing membership base;
- Selling the box office function to third party events/promoters;
- Collaboration on procurement with the other arts organisations and in particular JOH, e.g. travel and hotel costs;
- Collaboration on marketing with JAT and JOH;
- Identifying new potential benefactors and donors.

The refurbishment of the Arts Centre premises in 2017 is seen as vital for the organisation, to continue to ensure they have a venue that is fit for purpose in the short to medium term.

Income and expenditure

Income

The table opposite shows the reported trading position of JAC for FY11 to FY13 inclusive. There is no difference between the reported and 'proforma' position of JAC, and therefore a proforma income statement is not separately presented.

We comment further on income as follows:

- Self-generated income has increased as a percentage of total income from 41.5% to 45.7% through the review period.

  Income is generated primarily from hirings, promotions, sponsorship, membership subscriptions and a rental from the catering franchisee.

  In FY13, membership income was £20,954, and therefore whilst JAC has a significant membership base, income from memberships only accounts for 5.5% of self-generated income and 2.5% of total income.

- ESC grant funding declined by approximately £12,000 between FY11 and FY13.

Expenditure

Cost of sales comprises hiring and promotions costs, including theatre salary costs (£104,752 in FY13). Promotions are shows paid for to visit, largely from the UK, and represent the biggest financial risk.

Operating expenses in FY13 include establishment costs (e.g. heat, light and water, cleaning (including cleaning salaries of £29,236), repairs, insurance, telephone and rates) of £113,000, and administrative expenses of £333,000, of which £281,029 comprises wages and pension costs. Similar to JAT and JOH, management have confirmed that the total staff base has been reduced over time to a minimum number required to operate the centre. The other component of operating costs is financial costs of £57,000 in FY13, of which £49,000 was depreciation.

The 'reported' income statement

JAC | reported	2011	2012	2013
Income			
Self-generated income	328,992	347,670	382,975
ESC grant funding	462,487	463,327	450,303
Interest	1,358	7,501	3,835
	792,837	818,498	837,113
Cost of Sales	(321,792)	(368,240)	(411,117)
Gross Profit	471,045	450,258	425,996
Operating expenses	(456,875)	(502,154)	(502,067)
Operating Profit/(Loss)	14,170	(51,896)	(76,071)
Transfer between funds	28,153	30,117	61,410
Net Profit/(Loss) for the year	42,323	(21,779)	(14,661)
KPIs			
Self generated income %	41.5%	42.5%	45.7%
ESC grant funding %	58.3%	56.6%	53.8%
Wages/salaries	£365,029	£386,982	£415,017
Wages/salaries v income	46.0%	47.3%	49.6%

Source: financial statements of JAC for 2011, 2012 and 2013, management's confirmation of total wages and salaries per year, and BDO analysis.

[1] *The Statement of Financial Activities for JAC records transfers between Funds to arrive at a 'result for the year' on unrestricted funds (i.e. operating activities).*

Balance sheet

Reported balance sheet

The table opposite analyses the reported balance sheets of JAC as at 31 December 2011, 2012 and 2013.

We note the following as regards the balance sheet position of JAC:

- Tangible fixed assets comprise leasehold building, air conditioning, fixtures and fittings, equipment, pianos, motor vehicle and computers with an original cost of £1.33m, including £16,516 additions in FY13.
- The Designated Fund represents amounts put aside for the purpose of future capital, project or revenue expenditure, asset replacement, improvements to the Association's facilities and equipment and to fund deficits as and when they arise. The Designated Fund reduced from £77,000 to £31,000 in the three years ended 31 December 2013.
- The Phillips Street Maintenance Fund was funding received from ESC to meet maintenance and capital costs relating to the fabric of the Arts Centre building, and its expenditure has been programmed over a 5-year period to 2015.
- Debtors, stocks and prepayments in FY13 comprise, principally, trade and other debtors and prepayments. There were no stocks.

JAC maintained a positive net current asset and net asset position at all three period ends.

Reported

JAC | reported	2011	2012	2013
Fixed assets			
Tangible fixed assets	913,783	876,929	844,697
Cash at bank - Designated Fund	76,957	55,178	30,517
Cash at bank - Phillips Street Maintenance Fund	101,943	75,596	54,094
	1,092,683	1,007,703	929,308
Current assets			
Debtors, stocks and prepayments	33,925	83,356	81,586
Cash at bank and in hand	594,002	132,087	118,779
	627,927	215,443	200,365
Creditors: due within one year	(510,277)	(64,526)	(48,434)
Net current assets	117,650	150,917	151,931
Net assets	1,210,333	1,158,620	1,081,239

Source: financial statements of JAC for 2011, 2012 and 2013, and BDO analysis.