Customer & Local Services Ministerial Decision Report

Government of JERSEY

Transfer from the Social Security Reserve Fund to the Social Security Fund

1. Purpose of Report

As outlined in the Government Plan 2022 there is a requirement for a transfer of resource from the Social Security Reserve Fund to the Social Security Fund. This requirement arises as a consequence of the following decisions:

- Removal of the States Grant to the Social Security Fund in 2021, 2022 and 2023;
- Temporary reduction in employee Social Security Contributions for QD 2022.

The consequence is that the Social Security Fund will not have enough cash resource to fund anticipated benefit payments for the remainder of 2022.

This report seeks to enable the Minister to consider a recommendation to:

- Approve the transfer of up to £81.255 million of liquid assets from the Social Security Reserve Fund to the Social Security Fund during 2022 to manage the cash shortfall.

These actions would draw on the Reserve Fund's liquid assets during 2022. The performance of the investments held in the Reserve Fund were favorable in 2021 and whilst investment returns performance dropped during the earlier part of this year, this has seen a slight recovery and the fund balance as at 31st July 2022 was £2.1 billion. Therefore the required transfer will result in a reduction in the value of the investment portfolio and an equivalent increase of value to the SSF.

2. Background

The purpose of the Social Security Fund is to make social security payments which are funded by the receipt of Social Security contributions from individuals and business and, in normal circumstances, a States Grant. There is also a Social Security Reserve Fund, this fund holds excess funds generated by the Social Security Fund and invests these to generate investment income. It is intended that the reserve fund is used in the coming years to help fund the response to the coronavirus pandemic during 2021 and 2022, this is described in the Government Plan.

As outlined in further detail below, the authority of the Social Security Minister is required for any transfer of resource from the Reserve fund to the Social Security Fund.

Decisions have been made to:

- Remove of the States Grant to the Social Security Fund for the years 2021, 2022 and 2023, this will be reinstated in 2024;
- Reduce employee and Class 2 Social Security Contributions from 6% to 4% from October 2022 to December 2022;

All of these have an adverse impact on anticipated cash receipts to the Social Security Fund in 2022.

At the time the Government Plan and Social Security Fund budget were prepared it was anticipated that £81.255 million would be transferred from the Social Security Reserve Fund to the Social Security Fund (SSF) in 2022. This transfer was anticipated to compensate the SSF for the removal of the States grant and the reduction in employee contributions.

As at September 2022, it is forecast that a transfer of up to £78.5 million will be sufficient to enable the fund to break even in either cash or accounting terms. Appendix 1 provides the initial SSF budget, the current forecast and a forecast cashflow for the remainder of the year.

The Social Security Reserve Fund held financial assets valued at £2.2 billion as at 31 December 2021 and reported a return on investments of £230 million during 2021.

3. Proposal

It is proposed that authority is provided to enable the transfer of up to £81.255 million from the Social Security Reserve Fund to the Social Security Fund during 2022. It is possible that a further approval will be required later in the year depending upon circumstances relating to the level of cash contribution income. This amount is consistent with the Government Plan for 2022.

The timing of the transfers during the remainder of 2022 will be informed by cash balances with a view to managing the transfers in a way which minimises the impact upon the value of financial assets available for investment.

A Ministerial Decision is sufficient authority for the transfer within the terms of the Social Security (Jersey) Law 1974:

Article 31. Social Security (Reserve) Fund

(1) The Insular Insurance (Reserve) Fund established in pursuance of the Law of 1950 shall be renamed the Social Security (Reserve) Fund and shall be under the control and management of the Minister, and such assets as the Minister may determine may be transferred from the Social Security Fund into the Social Security (Reserve) Fund which shall be maintained as a reserve for the Social Security Fund.
(2) Article 30(4), (5), (5A), (5B), (5C), (5D), (6), (7), (8) and (9) shall apply to the Social Security (Reserve) Fund as they apply to the Social Security Fund.
3) Any sums determined by the Minister to be income of the Social Security (Reserve) Fund shall be paid into the Social Security Fund.
(4) Subject to the foregoing provisions of this Article and any other provision of this Law expressly directing payments to be made out of the Social Security (Reserve) Fund, a payment out of that Fund shall not be made otherwise than under the authority of a resolution of the States and shall be made subject to such conditions as to repayment or otherwise as may be specified in the resolution.

The minister therefore has authority to transfer 'income' resource out of the reserve fund to the Social Security Fund. A review of audited accounts figures from 2005 indicate that investment returns total £1.3 billion of the £2.2 billion balance as at 31 December 2021. This is significantly in excess of the value of the transfer outlined in this report. It should be noted £55 million transfer was actioned during 2020, a further £60 million was also transferred in 2021.

Such a transfer is considered appropriate in the current circumstances. Social Security Contributions received will continue to be used to pay Social Security Benefits. The use of past Reserve Fund investment returns to contribute to funding the consequences of the Covid-19 is entirely appropriate as it helps support the economy and will contribute to ensuring future receipts of social security contributions. The proposed transfer value represents a relatively small proportion of the fund and therefore will not in itself have a substantial impact on the future funding of Social Security Benefits. It is accepted the transfer will reduce the value of the Reserve Fund and investment income.

Legal advice has been sought which confirms that a Ministerial Decision is sufficient authority to action the required transfer of resource. This is on the basis that the transfer is a transfer of income received by the fund. This is defined as investment income and not transfers of other taxpayer funds made to the reserve fund.

4. Timeline & Process

The process, timeline and approvals to enable the required transfer to be made to ensure that the Social Security Fund has sufficient cash to enable benefits payments to be made are:

Ministerial Decision	Social Security Minister	22 September 2022
Transfers and Social Security Reserve Fund Liquidity in line with forecast actioned	Head of Treasury & Investment Management	Per attached cash forecast

5. Recommendation

The Minister is recommended to:

- Approve the transfer of up to £81.255 million from the Social Security Reserve Fund to the Social Security Fund during 2022 to compensate the Social Security Fund for reduced income and enable it to fund Social Security Benefit payments during 2022.
- Note that this is consistent with the 2022 Government Plan.
- Note that further transfers may be required during 2022.

6. Resource Implications

The resources held by the Social Security Reserve Fund will be reduced by up to £81.255 million during 2022 as a consequence of transfers to the Social Security Fund being actioned. The recommendation does not in itself have material resource implications as it is to transfer resource to compensate the Social Security Fund for other decisions and the economic impact of the Coronavirus pandemic.

Report author : Head of Finance Business Partnering – CLS	Document date : 22 September 2022
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Appendix 1

Accounting Budget	2022 Budget	2022 March Forecast	2022 July Forecast
	£'000		£'000
Income			
Estimated Social Security Contributions Due	-205,313	-216,663	-210,929
Transfer from Reserve Fund	-78,500	-78,500	-78,500
Other Income	-150	-31	-31
Income	**-283,963**	**-295,194**	**-289,460**
Benefits Spend	270,909	269,531	272,922
Other cash expenses	7,324	7,599	7,545
Depreciation	726	726	776
Transform	1,250	3,574	2,000
Total Expendiutre	**280,209**	**281,430**	**283,243**
Deficit / (Surplus)	**-3,754**	**-13,764**	**-6,217**

Forecast Cashflow 2022	Actuals	**Forecast based on Revised July position**				
	To 31 Aug	**Sept**	**Oct**	**Nov**	**Dec**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Opening tax payers	**66,253**	**40,187**	**73,179**	**80,777**	**68,374**	**66,253**
Contributions Due	-158,835	-15,000	-12,365	-12,365	-12,364	-210,929
Transfer from SSRF	0	-42,000	-20,000		-16,500	-78,500
Other Income	-33	0	0	0	0	-32
Total Cash Income	**-158,867**	**-57,000**	**-32,365**	**-12,365**	**-28,864**	**-289,460**
Benefits Spend	180,429	22,554	23,313	23,313	23,313	272,922
Other Expenses	3,506	1,010	1,010	1,010	1,010	7,545
Depreciation	388	97	97	97	97	776
Capital project	611	347	347	347	347	2,000
Total Cash Expenditure	**184,933**	**24,008**	**24,767**	**24,767**	**24,767**	**283,243**
Tax payers equity	**40,187**	**73,179**	**80,777**	**68,374**	**72,471**	**72,471**

The full year forecast takes into account the following:

- Based on the July Forecast update following the FPP report, this will be reviewed in full during October following the publication of the RPI
- The impacts of reduction to contributions moving from 6% to 4% during the last quarter of this year are reflected
- The transfer from the SSRF aims to maintain a balance of cash equivalent to two weeks of benefit spend, this supports the timing differences between collection of income and the process to draw down funds