Customer & Local Services Ministerial Decision Report

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

1. Purpose of Report

As outlined in the Government Plan 2023, there is a continuing requirement for a transfer of resource from the Social Security Reserve Fund to the Social Security Fund. This requirement is a consequence of the decision to remove the States Grant to the Social Security Fund in 2021, 2022 and 2023. Without the transfer from the Social Security Reserve Fund there would be insufficient cash resource to fund anticipated benefit payments for the remainder of 2023.

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

- Approve the transfer of up to £89 million of liquid assets from the Social Security Reserve Fund to the Social Security Fund during 2023 to manage the cash shortfall.

These actions would draw on the Reserve Fund's liquid assets during 2023. The required transfer will result in a reduction in the value of the Social Security Reserve Fund and an equivalent increase of value to the Social Security Fund.

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.

The authority of the Social Security Minister is required for any transfer of resource from the Reserve Fund to the Social Security Fund. 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.

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 Social Security Reserve Fund. This is defined as investment income and not transfers of other taxpayer funds made to the Reserve Fund.

The minister therefore has authority to transfer 'income' resource out of the Reserve Fund to the Social Security Fund. Investment returns since 2005 have amounted to c£1.3 billion of the £2.0 billion balance as at 31 December 2023. This is significantly in excess of the value of the transfer outlined in this report. It should be noted that transfers actioned have been £55 million in 2020, £60 million in 2021 and £78.5 million in 2022.

Decisions have been made to remove of the States Grant to the Social Security Fund for the years 2021, 2022 and 2023, but will be reinstated in 2024. This will continue to have an adverse impact on anticipated cash receipts to the Social Security Fund in 2023. The most recent valuation of the Social Security Reserve Fund (SSR) as of 31/12/22 was £2.0bn.

2022 was a challenging year for investments. Shocks, including spiking energy prices stemming from the war in Ukraine and continuing Covid disruption in China, resulted in high and persistent inflation driving central banks to raise interest rates rapidly in response. Both equity and fixed income markets were negatively impacted, with few options for effective protection. Under these market conditions, although SSR is well diversified, losses for the year of 6.9% were incurred. SSRs longer term returns remain positive, with the Funds' 3-year, 5-year and 10-year returns equaling 4.0%, 4.6% and 8.9% respectively.

Although short term conditions will likely continue to be volatile, the Treasury Advisory Panel remain satisfied with the portfolio's positioning and the long-term time horizon of the SSR allows it to look through periods of stress to generate long term returns. SSR remains well funded and holds sufficient reserves to meet short term drawdown requirements without impacting its ability to satisfy its long-term objectives.

At the time the Government Plan and Social Security Fund budget were prepared it was anticipated that £89 million would be transferred from the Social Security Reserve Fund to the Social Security Fund (SSF) in 2023. This transfer was anticipated to compensate the SSF for the removal of the supplement.

3. Proposal

It is proposed that authority is provided to enable the transfer of up to £89 million from the Social Security Reserve Fund to the Social Security Fund during 2023. This amount is consistent with the Government Plan for 2023.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.

The timing of the transfers during the remainder of 2023 will be informed by the movement in cash balances. Transfers will be completed in a way which minimises the impact upon the value of financial assets available for investment.

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 proposed transfer value represents a relatively small proportion of the fund. Therefore, it 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 Social Security Reserve Fund and investment income.

As at January 2023 it is forecast that a transfer of up to £89 million will be sufficient to enable the fund to break even in either cash or accounting terms.

The Social Security Reserve Fund held financial assets valued at £2.0 billion as at 31 December 2022 and reported a negative return on investments represented by a loss of £158 million during 2022.

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	27/01/2023
Transfers and Social Security Reserve Fund Liquidity in line with forecast actioned	Head of Treasury & Investment Management	Roughly equal quarterly transfers

5. Recommendation

The Minister is recommended to:

- Approve the transfer of up to £89 million from the Social Security Reserve Fund to the Social Security Fund during 2023 to compensate the Social Security Fund for reduced income and enable it to fund Social Security Benefit payments during 2023.

- Note that this is consistent with the 2023 Government Plan.

- Note that further transfers may be required during 2023.

6. Resource Implications

The resources held by the Social Security Reserve Fund will be reduced by up to £89 million during 2023 due to 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.

Report Author : Head of Finance Business Partnering – CLS	Document date : 27/01/2023
Quality Assurance / Review : Senior Policy Officer	File name and path: M:\6 Org. Finance\606 Budget Setting and Forecasting\Strategic\Government Plan 2023-2026\WR - SS reserve fund transfers for 2023.docx
MD sponsor : Policy Director	