Treasury and Exchequer Ministers Decision Report

APPROVAL OF THE FINANCIAL RETURN OF THE CURRENCY FUND

1. Purpose of Report

To approve the withdrawal of £3 million from the Currency Fund.

2. Background

The value of currency in circulation recognised as a liability of the Fund equals £97.3 million as of the 31 December 2023. The value of assets backing that currency in circulation rose to £110.9 million during the course of 2023, leaving a surplus of £13.6 million.

The Fund holds a surplus of assets over the currency in circulation liability as a buffer to allow the Fund to hold an allocation of return seeking assets. This controlled exposure allows the Fund to earn a superior yield over the long term, within tightly controlled risk boundaries, though the assets may suffer from volatility in the short term. The buffer is sized to provide comfort that in the event of a significant market event, the assets will not fall below the value of currency in circulation.

Over 2023 the Fund earned a total net return of £7.6 million; c.£5.9 million was earned from investments in the Common Investment Fund, the local infrastructure investment in liquid waste returned c.£0.8 million, 'cash at bank' yielded a further c.£0.8 million and the commemorative coin program generated c.£0.4 million. This was offset by operating expenditure of £0.3 million.

In the prior year the Fund generated a net loss of £6.9 million, this reflected unusual market conditions where rising rates and spiking inflation as well as economic uncertainty impacted both fixed income and equity assets in unison partially mitigating the diversification the asset allocation normally provides. Even at this point, the assets remained significantly in excess of the provision required to repay all the currency in circulation.

In assessing the adequacy of the buffer, the return profile of the Fund has been reviewed historically. The largest month of loss since the Fund was invested in the Common Investment Fund in 2010 was experienced in March 2020, when the Covid lockdowns sparked a significant market rout. That month saw a loss of £4.2 million incurred by the Fund and total losses in the year to date reached a trough of £5.9 million shortly after, before recovering to a net surplus position by year end.

In comparison to these years additional losses in excess of 30% would need to be incurred before it would be necessary for the Minister to return capital to the Fund to meet liabilities. The Treasury Advisory Panel has been tasked with a full review of the strategy in late February, in light of the higher interest rate environment, to ensure the Fund remains appropriately positioned to meet its liabilities even in a stressed environment.

3. Recommendation

The Minister is recommended to withdraw from the Currency Fund £3 million being satisfied that there remain sufficient assets in the fund after making provision for the repayment of currency in issue. The withdrawal will form the 2023 financial return to the Consolidated Fund.

4. Reason for Decision

Under article 7A(3b) of the Currency Notes and Currency Fund (Jersey) Law 1959, the Minister for Treasury and Resources is empowered to transfer all or any part of a surplus in the Currency Fund as determined by the Minister after making provision for the repayment of currency in issue.

The Minister, having taken advice from Officers of Treasury and Resource, is satisfied that following a withdrawal from the Fund of £3 million, the assets of the Fund, at £10.3m million in excess of the liability for Currency in Circulation, is a sufficient to provide for the repayment of currency in issue.

5. Resource Implications

There are no costs associated with the transfer as the cash is readily available. The above decision will be actioned by the existing staff in Treasury and Investment Management.

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