

**THE STATES OF DELIBERATION**  
**of the**  
**ISLAND OF GUERNSEY**

**COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY**

**SOCIAL SECURITY CONTRIBUTORY FUND ACCOUNTS 2018**

The States are asked to decide:-

1. Whether they are of the opinion to note the Committee *for* Employment & Social Security's approval of the Social Security Contributory Fund Accounts for the year ending 31 December 2018.

The above Proposition has been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.



## **SOCIAL SECURITY – CONTRIBUTORY FUNDS**

**Incorporating:**

**Guernsey Insurance Fund**

**Guernsey Health Service Fund**

**Long-term Care Insurance Fund**

**Controlled and managed by the  
States of Guernsey – Committee *for* Employment & Social Security**

**Reports and Financial Statements**

**For the year ended 31 December 2018**

## **REPORTS AND FINANCIAL STATEMENTS**

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## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security  
*For the year ended 31 December 2018*

### PRINCIPAL OFFICERS

#### Committee *for* Employment & Social Security

Title	Name	Date of Election / Resignation
President	Deputy M K Le Clerc	11 May 2016
Vice President* & Member	Deputy S L Langlois	18 May 2016 25 May 2016*
Member	Deputy J A B Gollop Deputy E A Yerby Deputy P J Roffey Deputy M J Fallaize	18 May 2016 18 May 2016 12 December 2018 18 May 2016 - 12 December 2018
Non-Voting Member	Mr M J Brown Mr A R Le Lièvre	3 June 2016 3 June 2016
Chief Secretary	Mr M Nutley	

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security  
*For the year ended 31 December 2018*

### STATEMENT OF ACTIVITIES

#### ACTIVITIES DURING THE YEAR

2018 was another very busy year for the Committee *for* Employment & Social Security.

Contribution percentage rates were not increased in 2018. This decision was taken following two changes to the contribution rates for 2017 which had been used to improve the sustainability of the Long-term Care Insurance Fund and to fund the new package of parental benefits. It must be acknowledged that contribution increases will need to be made in the future to ensure the sustainability of the Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-term Care Insurance Fund. This is primarily due to the well-known and largely predictable future increases in the number of pensioners, and the less predictable future cost of healthcare and long-term care in an older age society.

The upper and lower contribution limits and rates and contributory benefits were increased by 2.8% for 2018, according to the uprating policy, and in line with inflation.

There was a slight reduction in the number of items dispensed in the pharmaceutical service and a fall in the total annual cost of the service despite the approval of several new specialist drugs and fluctuations in the price of generic drugs. There was a reduction in prescribing opioid analgesics, antibiotics and hypnotics and a large saving achieved from a reduction in the prescribing of high cost and low value products. Significant costs were avoided by the continued controlled entry of new drugs onto the prescribing list. In 2018, the Pharmaceutical Benefit Advisory Committee and the Drugs and Therapeutics Committee, being separate bodies that advised the Committee *for* Employment & Social Security and the Committee *for* Health & Social Care respectively, combined into a single advisory body for the entry of new drugs across States services.

The 15 year contract with the Medical Specialist Group ended on 31st December 2017. A new contract was agreed, and has been in place since 1<sup>st</sup> January 2018. The new contract, signed by the Committee *for* Health & Social Care on behalf of the States, has been designed to support the ongoing transformation of Health & Social care services and funding models, in line with the delivery of the Partnership of Purpose work streams. The contract includes an annual savings target for the first three years of the contract. The contract for physiotherapy services, also expired at the end of 2017, but was extended while the Committee *for* Health & Social Care undertakes its review.

In December 2017, the Committee *for* Health & Social Care and the Committee *for* Employment & Social Security commenced a pilot scheme under the Guernsey Health Service Fund to provide free contraceptive options to people under 21 years of age, with the objective of reducing teenage pregnancies. The service is available through all GP practices, as well as the sexual health clinics. The initial results are very encouraging.

On 22 October 2018, the new Revenue Service was launched bringing together income tax and social security contribution functions. The Committee *for* Employment & Social Security remains responsible for policy matters concerning social security contributions, but the Policy & Resources Committee has become responsible for collection and administration of contributions, in order to take advantage of efficiencies in a combined collection service with income tax.

The Committee made good progress in 2018 towards bringing to the States proposals for anti-discrimination legislation. An outcome of the States debate of the Policy & Resources Plan (Billet d'Etat XV of 2018) was that the Committee *for* Employment & Social Security should expand its existing programme of work to develop detailed policy proposals for disability discrimination legislation into a project that develops proposals for multiple-grounds of protection against discrimination, including disability. Throughout 2018, the Committee continued to be assisted with this work by experts from the University of Galway. This work has links with the Guernsey Insurance Fund in terms of elimination or reduction of some of the barriers to employment and, consequently, increased contributions on earnings and reductions in benefit expenditure.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security  
*For the year ended 31 December 2018*

### STATEMENT OF ACTIVITIES (Continued)

#### ACTIVITIES DURING THE YEAR (Continued)

The Committee also made good progress with developing detailed proposals for a secondary pension scheme which, in time, will complement the basic old age pension scheme. The secondary pension scheme is intended to be an auto-enrolment scheme with voluntary opt-out, similar to that which applies in the UK. The work in 2018 was centred on the finalisation of a detailed specification which was put out to tender. By the end of the year, the Committee was in detailed post-tender discussions with two firms that had been shortlisted for the pension provider organisation.

The Committee continued to consider and develop proposals for reform of the long-term care insurance scheme as required by Resolutions of the States on the Supported Living and Ageing Well Strategy (Billet d’Etat III of 2016). This has proved to be a complex and challenging piece of policy development.

The Data Protection (Bailiwick of Guernsey) Law 2017 came into force on 25 May 2018 and work is ongoing to ensure all social security data will be processed in accordance with the 2017 Law ready for the implementation of regulations in May 2019. The project team continues to update all customer-facing documents and ensuring all service areas are compliant with the legislation.

In February, Employment & Social Security was re-accredited with Investors in People. This was the first assessment against the revised ‘Framework for Excellence’. At a time of change in the public sector, the Committee and staff were very pleased to achieve the silver level of accreditation.

#### FUTURE ACTIVITIES

Beyond business as usual, activities in 2019 will see some of the major projects that have been in development throughout 2018 proceed to reports to the States of Guernsey for approval.

A Policy Letter on reforms to long-term care insurance is expected to go to the States in 2019, as is a policy letter on secondary pensions. In the case of the latter, the States will be asked to approve detailed proposal sufficient for legislative drafting, and also asked to approve the firm selected to be the pension provider.

Following joint working between the Committee *for* Employment & Social Security, the Committee *for* Health & Social Care and the Policy & Resources Committee it is expected that a Policy letter will be taken to the States in 2019 recommending a fundamental amendment of the Health Service (Benefit) Law, 1990. The purpose of the amendments would be to repeal the statutory basis of all of the health benefits, with the exception of the pharmaceutical service. The intention would be to transfer responsibility of all health benefits to the mandate of the Committee *for* Health & Social Care. Under the proposal being developed, social security contributions would still be used as a source of funding for health care, but instead of an allocation from contribution receipts going into the Guernsey Insurance Fund, an allocation would instead go to General Revenue as a partial contribution to an expanded and comprehensive Health & Social Care budget.

The proposals for anti-discrimination legislation referred to in the previous section (Activities during the Year) will progress to public consultation in 2019. The Committee will also take a Policy Letter to the States for funding of a non-statutory Equality and Rights Organisation (“ERO”). This embryonic ERO is intended to focus on awareness, education and training concerning discrimination and to contribute to the proposals under development.

The Committee will also report to the States with proposals for a limited scheme of medical cover for Guernsey and Alderney residents travelling to the UK. The proposed cover will be available where the individuals can demonstrate, prior to travelling, that they cannot obtain health insurance cover at a reasonable cost because of their health conditions.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2018

### STATEMENT OF PERFORMANCE

#### Overview

The Social Security Contributory Funds comprising the Guernsey Insurance Fund (GIF), Guernsey Health Service Fund (GHSF) and Long-term Care Insurance Fund (LTCIF) recorded a combined operating deficit of £18.3m (2017: £15.7m deficit). A breakdown of the operating results is as follows:

- GIF: operating deficit of £23.6m (2017: £19.6m deficit).
- GHSF: operating deficit of £2.8m (2017: £3.0m deficit).
- LTCIF: operating surplus of £8.1m (2017: £6.9m surplus).

Total Reserves for the year decreased by £60.7m (2017: £56.3m increase). This decrease comprised the operating deficit of £18.3m (2017: £15.7m deficit) and a decrease from investing activities of £42.3m (2017: £72.0m increase). The decrease in Reserves is allocated as follows:

- GIF: -£56.8m (2017: +£38.0m) and comprised the operating deficit of £23.6m (2017: £19.6m deficit) and decrease from investing activities of £33.1m (2017: £57.6m increase);
- GHSF: -£8.1m (2017: +£6.2m) and comprised the operating deficit of £2.8m (2017: £3.0m surplus) and decrease from investing activities of £5.3m (2017: £9.2m increase). The operating deficit is as a direct result of not receiving the states grant of £4.7m which was suspended since 2017 in order to assist with the General Revenue funding challenges in respect of Health & Social care services, and remains suspended in 2018 pending a review into healthcare funding.
- LTCIF: +£4.2m (2017: +£12.1m) and comprised the operating surplus of £8.1m (2017: £6.9m surplus) and decrease from investing activities of £3.9m (2017: £5.2m increase).

At the year-end total reserves stood at £906.2m (2017: £966.6m) and allocated as follows:

- GIF: £712.5m (2017: £769.3m) providing expenditure cover of 4.8 years (2017: 5.4 years);
- GHSF: £114.4m (2017: £122.5m) providing expenditure cover of 2.6 years (2017: 2.9 years); and
- LTCIF: £79.2m (2017: £75.0m) providing expenditure cover of 4.0 years (2017: 3.8 years).

#### Contribution income and states grant

Total contribution income increased by 3.5% to £178.8m (2017: +7.7% to £172.7m). The increase is attributed mainly to employed persons, which saw an increase of 3.7% to £152.1m (2017: +8.0% to £146.7m). Income from self-employed persons increased by 2.8% to £16.8m (2017: +2.8% to £16.3m), and non-employed persons increased by 4.0% to £9.9m (2017: +11.1% to £9.5m).



## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2018

### STATEMENT OF PERFORMANCE (CONTINUED)

#### *Contribution income and states grant (continued)*

Numbers of Contributors as at week 48	2018	2017	5-Year average
<b>Employers</b>	<b>2,325</b>	<b>2,333</b>	<b>2,382</b>
Employed	29,106	28,909	28,854
Self-Employed	3,044	3,108	3,144
Non-Employed	5,946	5,783	5,737
<b>Total Contributors (excluding employers)</b>	<b>38,096</b>	<b>37,800</b>	<b>37,735</b>

The overall number of contributors, at week 48, increased by 0.8% to 38,096 (2017: 37,800). The number of employed increased by 0.7% (2017: +0.5%) while self-employed decreased by 2.1% (2017: -0.5%). Non-employed contributors increased by 2.8% (2017: +1.6%). The largest economic sector remained the financial sector, which accounted for 23% (2017: 22%) of the employed population and represented 32% (2017: 32%) of the total income received from employers and employees.

The contribution income from the contribution classes is allocated as follows:

- GIF: +3.0% to £109.8m (2017: +4.5% to £106.6m). The grant received from the States of Guernsey, being a fixed percentage of contributions (14.7%), increased to £16.1m (2017: £15.7m);
- GHSF: +3.8% to £41.0m (2017: +1.5% to £39.5m). No grant was received from the States of Guernsey (2017: nil); and
- LTCIF: +5.4% to £28.0m (2017: +36.8% to £26.6m).

#### **Benefit expenditure**

Overall benefit expenditure increased by 4.5% to £206.7m (2017: +2.0% to £197.9m). The great majority of benefits are not discretionary and their entitlement is in accordance with law. The general rate of benefit was increased by 2.8% (2017: 0.8%). The allocation between the Funds is as follows:

- GIF: +5.6% to £144.9m (2017: +1.9% to £137.3m);
- GHSF: +2.4% to £42.2m (2017: +1.0% to £41.2m); and
- LTCIF: +1.1% to £19.6m (2017: +5.2% to £19.4m).

Details of major areas of benefit expenditure follow:

GIF: Pension	2018	2017	5-Year Average
Number of claimants at the year-end	18,229	17,964	17,664
Number of approved claims during the year	999	1,056	1,025

Pension expenditure accounts for over 85% of the total benefit expenditure of GIF and for the year increased by 5.1% to £123.5m (2017: +1.8% to £117.5m). The single rate of old age pension and the addition in pension in respect of a dependant wife both increased by 2.8% (2017: 0.8%).

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2018

### STATEMENT OF PERFORMANCE (CONTINUED)

#### *Benefit expenditure (continued)*

<b>GIF: Incapacity benefit</b>	<b>2018</b>	<b>2017</b>	<b>5-Year Average</b>
Number of claimants at the year-end	865	856	860
Number of approved claims during the year	316	216	328

Incapacity benefit increased by 7.3% to £8.6m (2017: -1.3% £8.0m). The Committee is working on a number of back-to-work initiatives to move more people off benefit into work, including the long-term sick.

<b>GIF: Unemployment benefit</b>	<b>2018</b>	<b>2017</b>	<b>5-Year Average</b>
Number of claimants at the year-end	107	153	167
Number of approved claims during the year	627	790	898

Unemployment benefit decreased by 11% to £0.9m (2017: -27% to £1.0m). The Committee continues to work on a number of back-to-work initiatives to move more people off benefit into work, including the unemployed. Both the number of active claims and approved claims for the year decreased and were well below the 5-year average.

<b>GHSF: Specialist Health Insurance Scheme</b>	<b>2018</b>	<b>2017</b>	<b>5-Year Average</b>
Medical specialist Group <i>full-time equivalent consultants (average)</i>	47.0	45.8	44.0
Guernsey Therapy Group <i>full-time equivalent physiotherapists &amp; assistants (average)</i>	36.0	36.8	35.6

Medical specialist expenditure increased by 0.5% to £18.14m (2017: +2.0% to £18.05m) with the average number of consultants increasing by 1.2 for the year. A new 5 year contract came in to effect on 1 January 2018.

The Physiotherapy contract is provided by the Guernsey Therapy Group. For the year, expenditure increased by 4.2% to £2.3m (2017: +0.6% to £2.2m).

The Alderney contract decreased slightly to £274k (2017: £285k), however Alderney Doctors are still providing additional support.

<b>GHSF: Drugs and medicines</b>	<b>2018</b>	<b>2017</b>	<b>5-Year Average</b>
Total prescriptions	1,523,919	1,511,093	1,531,424
Average basic cost per item	£9.31	£8.93	£8.81

For the year, overall net expenditure in respect of drugs and medicines, after prescription charges, increased by 3.5% to £16.8m (2017: -0.4% to £16.25m). New drugs to the White List continue to be well controlled, however the number of items dispensed has increased slightly in comparison to the previous year, with the basic drug costs also increasing by 4.2% (2017: -0.7%).

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
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### STATEMENT OF PERFORMANCE (CONTINUED)

#### *Benefit expenditure (continued)*

LTCIF: Residential Home Care grant	2018	2017	5-Year Average
Number of claimants at year-end - Permanent	260	282	264
Number of claimants at year-end - Permanent with EMI	132	122	110
<b>Total</b>	<b>392</b>	<b>404</b>	<b>374</b>
12-month rolling average	408	390	374

Residential Home Care benefit expenditure increased by 8.3% to £10.6m (2017: £9.84m) and saw the 12-month rolling average in active claims increase by 4.6%. The number of Residential Home Care with Elderly Mental Infirmary ("EMI") patients increased by 22.8% due to Greenacres Care Home opening in February 2018 with an increased provision of EMI beds.

LTCIF: Nursing Home Care grant	2018	2017	5-Year Average
Number of claimants at the year-end	205	202	216
12-month rolling average	205	227	n/a

Nursing Home Care benefit expenditure decreased by 6.2% to £9.0m (2017: £9.6m). Although the general rate of benefit increased by 6.2%, the 12-month rolling average was down 9.7%.

#### **Administration**

Total administration expenditure increased by 5.6% to £8.4m (2017: £7.9m) with the recharge of administrative expenditure to Non Contributory Services ("NCS") increasing by 7.2% to £1.91m (2017:£1.78m). Overall staffing costs increased by 5.2% to £5.4m (2017: £5.1m). The increase is a result of finalised pay awards for established staff, filling of vacancies during the year, and the inclusion of staff recharged back to the Policy & Resources Committee, as a result of the transfer of services from the Committee for Health & Social Care to this Committee during the year.

Full-time Equivalent Staff	2018	2017
Total employed directly	116.4	114.5
Staff recharged to Non Contributory Funds (General Revenue)	(35.5)	(34.4)
<b>Contributory Funds Allocation</b>	<b>80.9</b>	<b>80.1</b>

The small increase in staff full-time equivalents is primarily due to filling of staff vacancies. The Committee's total full-time equivalent ("FTE") staff numbers in 2018 was 162.8 (2017:157.0) with 46.4 FTEs (2017: 42.5) paid directly from General Revenue and therefore excluded from the above analysis.

The allocation of administration costs between the Funds is as follows:

- GIF: +2.3% to £4.5m (2017: -5.2% to £4.5m);
- GHSE: +22.8% to £1.6m (2017: -14.6% to £1.3m); and
- LTCIF: -0.1% at £0.3m (2017: -0.43% at £0.3m).

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
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### STATEMENT OF PERFORMANCE (CONTINUED)

#### Investment Funds

The investment portfolios of the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-term Care Insurance Fund are combined to form the Common Investment Fund which at 31 December 2018 had a market value of £874.9m (2017: £939.9m).

As the Guernsey Insurance Fund and Guernsey Health Service Fund are currently running operating deficits, £24.0m (2017: £14.9m) was withdrawn from the Common Investment Fund during the year for cash flow to meet obligations. The allocation between the three contributory funds at the year-end is as follows:

Common Investment Fund allocation At Year-end	2018		2017	
	£'000s	%	£'000s	%
Guernsey Insurance Fund	687,918	78.7%	752,020	80.0%
Guernsey Health Service Fund	110,493	12.6%	119,779	12.7%
Long-term Care Insurance Fund	76,476	8.7%	68,140	7.3%
<b>Total</b>	<b>874,887</b>	<b>100.0%</b>	<b>939,939</b>	<b>100.0%</b>

The Committee has continued to diversify its investment portfolio to maximise returns for a reduced risk. The performance of the Common Investment Fund on annualised 1, 3 and 5 year periods is shown below:

Common Investment Fund (CIF) Investment Performance	% CIF return per annum	% Target Return per annum *
1-Year	(4.2%)	4.2%
3-Year	5.2%	4.2%
5-Year	3.7%	4.2%

\*The Target Return is 6-month LIBOR +3.5%.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
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### STATEMENT OF PERFORMANCE (CONTINUED)

#### KEY STATISTICS

<b>Contribution Rates - Annual Earnings/Income limits</b>	<b>2018 £</b>	<b>2017 £</b>	<b>2016 £</b>	<b>2015 £</b>	<b>2014 £</b>
<b>Class 1 <i>Employed</i></b>					
Upper earnings limit	142,896	138,684	137,592	135,252	132,444
Lower earnings limit	6,968	6,968	6,916	6,812	6,656
<b>Class 2 <i>Self-employed</i></b>					
Upper earnings limit	142,896	138,684	137,592	135,252	132,444
Lower earnings limit	7,176	6,968	6,916	6,812	6,656
<b>Class 3 <i>Non-employed</i></b>					
Maximum income	142,896	138,684	137,592	135,252	132,444
Minimum income	17,940	17,420	17,290	17,030	16,640
Allowance	8,110	7,875	7,336	7,223	7,059

<b>Contribution Rates – Contributory Funds</b>	<b>2018 %</b>	<b>2017 %</b>	<b>2016 %</b>	<b>2015 %</b>	<b>2014 %</b>
<b>Class 1 <i>Employer</i></b>					
Guernsey Insurance Fund	5.0	5.0	4.9	4.9	4.9
Guernsey Health Service Fund	1.6	1.6	1.6	1.6	1.6
Long-term Care Insurance Fund	-	-	-	-	-
	<b>6.6</b>	<b>6.6</b>	<b>6.5</b>	<b>6.5</b>	<b>6.5</b>
<b><i>Employee</i></b>					
Guernsey Insurance Fund	3.5	3.5	3.4	3.4	3.4
Guernsey Health Service Fund	1.3	1.3	1.3	1.3	1.3
Long-term Care Insurance Fund	1.8	1.8	1.3	1.3	1.3
	<b>6.6</b>	<b>6.6</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
<b><i>Combined</i></b>					
Guernsey Insurance Fund	8.5	8.5	8.3	8.3	8.3
Guernsey Health Service Fund	2.9	2.9	2.9	2.9	2.9
Long-term Care Insurance Fund	1.8	1.8	1.3	1.3	1.3
	<b>13.2</b>	<b>13.2</b>	<b>12.5</b>	<b>12.5</b>	<b>12.5</b>
<b>Class 2 <i>Self-employed</i></b>					
Guernsey Insurance Fund	6.5	6.5	6.5	6.5	6.5
Guernsey Health Service Fund	2.7	2.7	2.7	2.7	2.7
Long-term Care Insurance Fund	1.8	1.8	1.3	1.3	1.3
	<b>11.0</b>	<b>11.0</b>	<b>10.5</b>	<b>10.5</b>	<b>10.5</b>
<b>Class 3 <i>Non-employed (under 65)</i></b>					
Guernsey Insurance Fund	5.7	5.7	5.7	5.7	5.7
Guernsey Health Service Fund	2.8	2.8	2.8	2.8	2.8
Long-term Care Insurance Fund	1.9	1.9	1.4	1.4	1.4
	<b>10.4</b>	<b>10.4</b>	<b>9.9</b>	<b>9.9</b>	<b>9.9</b>
<b><i>Non-employed (over 65)</i></b>					
Guernsey Insurance Fund	-	-	-	-	-
Guernsey Health Service Fund	1.3	1.3	1.3	1.3	1.3
Long-term Care Insurance Fund	2.1	2.1	1.6	1.6	1.6
	<b>3.4</b>	<b>3.4</b>	<b>2.9</b>	<b>2.9</b>	<b>2.9</b>

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2018

### STATEMENT OF PERFORMANCE (CONTINUED)

#### Key Statistics (continued)

Number of contributors (as at week 48)	2018	2017	2016	2015	2014
<b>Employers</b>	<b>2,325</b>	<b>2,333</b>	<b>2,386</b>	<b>2,431</b>	<b>2,435</b>
Employed	29,106	28,909	28,769	28,713	28,771
Self-employed	3,044	3,108	3,124	3,195	3,251
Non-employed	5,946	5,783	5,691	5,690	5,574
<b>Total Contributors</b>	<b>38,096</b>	<b>37,800</b>	<b>37,584</b>	<b>37,598</b>	<b>37,596</b>

Contributory Funds - General Revenue Grants - % of contributions	2018 %	2017 %	2016 %	2015 %	2014 %
Guernsey Insurance Fund	14.7%	14.7%	15.0%	15.0%	15.0%
Guernsey Health Service Fund*	0%	0%	12.0%	12.0%	12.0%
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Guernsey Insurance Fund	16.1	15.7	15.3	15.0	14.9
Guernsey Health Service Fund	-	-	4.7	4.6	4.5
<b>Total</b>	<b>16.1</b>	<b>15.7</b>	<b>20.0</b>	<b>19.6</b>	<b>19.4</b>

\* The grant to the Guernsey Health Service Fund was suspended for 2017 and 2018, in order to assist with the General Revenue funding challenges in respect of health and social care services.

GIF: Number of claimants at the year-end	2018	2017	2016	2015	2014
Pension	18,229	17,964	17,653	17,381	17,072
Incapacity Benefit	865	856	851	856	872
Sickness Benefit	424	400	388	418	440
Bereavement Benefits	159	200	208	188	205
Unemployment Benefit	107	153	183	213	179
Industrial Disablement Benefit	162	165	170	185	192
Industrial Injury Benefit	22	12	11	13	15
Maternity Allowance*	Not available	Not available	119	129	125
<b>Total</b>	<b>19,968</b>	<b>19,750</b>	<b>19,583</b>	<b>19,383</b>	<b>19,100</b>

\* Following the introduction of improved parental benefits, a separate analysis of maternity allowance is unavailable.

GIF: No. of approved claims during the year	2018	2017	2016	2015	2014
Sickness Benefit	10,866	9,748	10,358	10,177	10,042
Pension	999	1,056	1,006	956	1,110
Unemployment Benefit	627	790	971	1,016	1,088
Industrial Medical Benefit	909	795	762	900	1,124
Travelling Allowance Grant	953	923	875	1,014	1,026
Death Grant	619	681	645	570	510
Industrial Injury Benefit	487	342	455	499	603
Bereavement Benefits	338	345	347	281	280
Incapacity Benefit	316	216	253	226	271
Industrial Disablement Benefit	11	5	6	7	3
Maternity Allowance*	Not available	Not available	531	521	521
Maternity Grant*	Not available	Not available	73	70	61
<b>Total</b>	<b>16,125</b>	<b>14,901</b>	<b>16,282</b>	<b>16,237</b>	<b>16,639</b>

\* Following the introduction of improved parental benefits, a separate analysis of maternity allowance and maternity grant is unavailable.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2018

### STATEMENT OF PERFORMANCE (CONTINUED)

#### Key Statistics (continued)

<b>GHSF: Drugs &amp; medicines</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Ordinary prescriptions	530,091	536,170	552,606	562,306	571,524
% change	-1.1%	-3.0%	-1.7%	-1.6%	+2.9%
Exempt prescriptions	993,828	974,923	974,106	969,296	957,767
% change	+1.9%	+0.1%	+0.5%	+1.2%	+3.3%
<b>Total prescriptions</b>	<b>1,523,919</b>	<b>1,511,093</b>	<b>1,526,712</b>	<b>1,531,602</b>	<b>1,529,291</b>
% change	+0.8%	-1.0%	-0.3%	+0.2%	+3.2%
Average basic cost	£9.31	£8.93	£8.99	£8.63	£8.29
% change	+4.3%	-0.7%	+4.2%	+4.1%	-2.5%
Ordinary prescriptions as a % of total	34.8%	35.5%	36.2%	36.7%	37.4%
Exempt prescriptions as a % of total	65.2%	64.5%	63.8%	63.3%	62.6%

<b>GHSF: Consultation grants</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Doctors	242,960	236,477	241,749	243,500	254,747
% change	+2.7%	-2.2%	-0.7%	-4.4%	+1.5%
Nurses	78,917	77,401	77,360	78,833	81,531
% change	+2.0%	+0.1%	-1.9%	-3.3%	+2.5%
<b>Total</b>	<b>321,877</b>	<b>313,878</b>	<b>319,109</b>	<b>322,333</b>	<b>336,278</b>
% change	+2.5%	-1.6%	-1.0%	-4.1%	+1.7%

<b>LTCIF: Number of claimants at year-end</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Residential & EMI grant-permanent	392	404	360	349	365
Nursing grant-permanent	205	202	227	227	220
<b>TOTAL</b>	<b>597</b>	<b>606</b>	<b>587</b>	<b>576</b>	<b>585</b>

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2018

### STATEMENT OF PERFORMANCE (CONTINUED)

<b>GIF: 5-Year Financial Performance</b>	<b>2018 £m</b>	<b>2017 £m</b>	<b>2016 £m</b>	<b>2015 £m</b>	<b>2014 £m</b>
Income	125.9	122.3	117.3	115.1	113.9
Expenditure	(149.5)	(141.7)	(139.4)	(134.5)	(129.5)
Operating deficit	(23.6)	(19.5)	(22.1)	(19.4)	(15.6)
Investing activities	(33.1)	57.6	76.5	(5.9)	25.4
<b>Net (deficit)/surplus during the year</b>	<b>(56.8)</b>	<b>38.0</b>	<b>54.4</b>	<b>(25.3)</b>	<b>9.8</b>
Net assets of the Fund at 1 January	769.3	731.2	676.8	702.1	692.3
<b>Net assets of the Fund at 31 December</b>	<b>712.5</b>	<b>769.3</b>	<b>731.2</b>	<b>676.8</b>	<b>702.1</b>
Expenditure cover in number of years	4.8	5.4	5.2	5.0	5.4

<b>GHSF: 5-Year Financial Performance</b>	<b>2018 £m</b>	<b>2017 £m</b>	<b>2016 £m</b>	<b>2015 £m</b>	<b>2014 £m</b>
Income	41.0	39.5	43.6	42.7	42.2
Expenditure	(43.8)	(42.5)	(42.3)	(41.3)	(38.4)
Operating (Deficit)/Surplus	(2.8)	(3.0)	1.3	1.4	3.8
Investing activities	(5.3)	9.1	12.0	(0.9)	3.6
<b>Net (deficit)/surplus during the year</b>	<b>(8.1)</b>	<b>6.1</b>	<b>13.3</b>	<b>0.5</b>	<b>7.4</b>
Net assets at 1 January	<b>122.5</b>	116.4	103.1	102.6	95.2
<b>Net assets at 31 December</b>	<b>114.4</b>	<b>122.5</b>	<b>116.4</b>	<b>103.1</b>	<b>102.6</b>
Expenditure cover in number of years	2.6	2.9	2.8	2.5	2.7

<b>LTCIF: 5-Year Financial Performance</b>	<b>2018 £m</b>	<b>2017 £m</b>	<b>2016 £m</b>	<b>2015 £m</b>	<b>2014 £m</b>
Income	28.0	26.6	19.4	18.9	18.5
Expenditure	(19.9)	(19.7)	(18.7)	(18.2)	(18.2)
Operating Surplus	8.1	6.9	0.7	0.7	0.3
Investing activities	(3.9)	5.2	6.4	(0.5)	2.0
<b>Net surplus during the year</b>	<b>4.2</b>	<b>12.1</b>	<b>7.1</b>	<b>0.2</b>	<b>2.3</b>
Net assets at 1 January	75.0	62.9	55.8	55.6	53.3
<b>Net assets at 31 December</b>	<b>79.2</b>	<b>75.0</b>	<b>62.9</b>	<b>55.8</b>	<b>55.6</b>
Expenditure cover in number of years	4.0	3.8	3.4	3.1	3.1



## **SOCIAL SECURITY – CONTRIBUTORY FUNDS**

**Controlled and managed by the States of Guernsey – Committee for Employment & Social Security**  
***For the year ended 31 December 2018***

### **STATEMENT OF RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS**

The Committee for Employment & Social Security (the “Committee”) is required to prepare financial statements for each financial year which are properly prepared in accordance with the accounting policies set out in note 1. In preparing those financial statements, the Committee is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to do so.

The Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Contributory Funds and enable them to ensure that the financial statements comply with Section 100(3) of The Social Insurance (Guernsey) Law, 1978, Section 1(4) of the Health Service (Benefit) (Guernsey) Law, 1990 and Section 1(4) of the Long-term Care Insurance (Guernsey) Law, 2002. It is also responsible for safeguarding the assets of the Contributory Funds and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **GOING CONCERN**

The Committee members and principal officers have reviewed the budget and projected income and expenses over the next twelve months and deem that each of the Contributory Funds have adequate financial resources to meet its obligations. Each of the Contributory Funds is therefore deemed to be a going concern.

### **STATEMENT OF INTERNAL CONTROLS**

It is the responsibility of the Committee to identify and install a system of internal controls, including financial control, which is adequate for its own purposes, and to safeguard the assets of the Contributory Funds and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Committee is also responsible for the economical, efficient and effective management of public funds and other resources entrusted to it.

The Committee’s internal financial procedures include:

- an annual budget and planning process to allocate, control and monitor the use of resources;
- a requirement to table at a meeting of the Committee;
  - the annual audit report together with the audited financial statements;
  - the annual report of observations and recommendations produced by the external auditor;
  - the annual policy and resource plan; and
  - the quarterly management accounts;
- by Law, an actuarial review to determine the adequacy of the contribution rates must be undertaken at least once every five years and submitted to the Committee and the States of Guernsey;
- a regular review of the performance and security of the Contributory Funds by the Committee;
- occasional review and appraisal of the soundness, adequacy and application of internal controls by the States Internal Audit Unit; and
- a requirement for internal audit reports to be tabled at a meeting of the Committee.

The Committee strives to ensure that all staff with financial responsibilities have the necessary integrity, skills and motivation to discharge their duties with the proficiency which the community has the right to expect. The Committee’s internal controls and accounting policies have been and are subject to continuous review and improvement.

In addition, the financial statements are subject to an independent external audit by Grant Thornton, the auditor appointed by the States of Guernsey.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
STATES OF GUERNSEY – COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY  
AS CONTROLLER AND MANAGER OF  
SOCIAL SECURITY – CONTRIBUTORY FUNDS**

**Opinion**

We have audited the financial statements of the States of Guernsey – Contributory Funds (the “Contributory Funds”) for the year ended 31 December 2018 which comprise the Aggregated Fund Account, the Aggregated Statement of Financial Position, the Aggregated Statement of Cash Flows and notes 1 to 19 to the financial statements, including a summary of significant accounting policies.

- In our opinion, the financial statements of the Contributory Funds for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the accounting policies stated in note 1 to the financial statements.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report. We are independent of the Contributory Funds in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter — Basis of Accounting and Restriction on Distribution and Use**

We draw attention to note 1 to the financial statements, which describes the basis of accounting. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Contributory Funds and should not be distributed to or used by parties other than the Contributory Funds. Our opinion is not modified in respect of this matter.

**Who we are reporting to**

This report is made solely to the members of the States of Guernsey – Committee *for* Employment & Social Security (the “Committee”) as a body, in accordance with our engagement letter dated 7 September 2017. Our audit work has been undertaken so that we might state to the members of the Committee those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Committee, for our audit work, for this report, or for the opinions we have formed.

**Other information**

The Committee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters in relation to which our engagement letter requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Contributory Fund; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
STATES OF GUERNSEY – COMMITTEE *for* EMPLOYMENT & SOCIAL SECURITY  
AS CONTROLLER AND MANAGER OF  
SOCIAL SECURITY – CONTRIBUTORY FUNDS**

**Responsibilities of the Committee for the financial statements**

As explained more fully in the Statement of Responsibilities of the Committee *for* Employment & Social Security, the Committee is responsible for the preparation of the financial statements in accordance with the basis of preparation and accounting policies in note 1 to the financial statements. The Committee is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Committee is responsible for assessing the Contributory Funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Committee either intend to liquidate the Contributory Funds or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Contributory Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Committee.
- Conclude on the appropriateness of the Committee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Contributory Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Contributory Fund to cease to continue as a going concern.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Grant Thornton Limited**

Chartered Accountants  
St Peter Port  
Guernsey

21 May 2019

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2018

### AGGREGATED FUND ACCOUNT

	Note	2018 £'000s	2017 £'000s
<b>Income</b>			
Contributions	1(b),2	178,826	172,713
States grant	1(b)	16,135	15,668
		<b>194,961</b>	<b>188,381</b>
<b>Expenditure</b>			
Benefits payable	1(d),3,4,5,6	206,738	197,875
Administration	7	6,463	6,118
		<b>213,201</b>	<b>203,993</b>
Operating deficit before depreciation charge		(18,240)	(15,612)
Depreciation charge	9	(78)	(93)
<b>Operating deficit</b>		<b>(18,318)</b>	<b>(15,705)</b>
Investment returns	1(h),8	(42,330)	71,999
<b>Net (deficit)/surplus</b>		<b>(60,648)</b>	<b>56,294</b>
Net assets at 1 January		966,819	910,525
<b>Net assets at 31 December</b>		<b>906,171</b>	<b>966,819</b>

All activities are derived from continuing operations.

The Contributory Funds have no recognised surplus or deficit in the current or previous financial year other than those passing through the Fund Account.

Notes 1 to 19 form an integral part of these financial statements.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security  
As at 31 December 2018

### AGGREGATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.18 £'000s	31.12.17 £'000s
<b>Non-current assets</b>			
Tangible assets	9	3,459	2,925
Financial Instruments	10	874,887	939,939
Debtors due after one year	12	114	108
		<b>878,460</b>	<b>942,972</b>
<b>Current assets</b>			
Debtors due within one year	11	33,574	29,074
Balances with States Treasury		-	213
Cash and cash equivalents		349	298
		<b>33,923</b>	<b>29,585</b>
<b>Current liabilities</b>			
Creditors: Amounts falling due within one year	13	5,488	3,706
Bank overdraft		724	2,032
		<b>6,212</b>	<b>5,738</b>
<b>Net current assets</b>		<b>27,711</b>	<b>23,847</b>
<b>Total net assets</b>		<b>906,171</b>	<b>966,819</b>
<b>Reserves</b>			
Guernsey Insurance Fund		712,517	769,278
Guernsey Health Service Fund		114,444	122,528
Long-term Care Insurance Fund		79,210	75,013
		<b>906,171</b>	<b>966,819</b>

The financial statements were approved by the Committee *for* Employment & Social Security on 2019.

Signed on behalf of the Committee

**M K Le Clerc**  
President

**M Nutley**  
Chief Secretary

Notes 1 to 19 form an integral part of these financial statements.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2018

### AGGREGATED STATEMENT OF CASH FLOWS

Note	2018 £'000s	2017 £'000s
<b>Cash flows from operating activities</b>		
Operating deficit for the year	(18,318)	(15,705)
<i>Adjustments for:</i>		
Tangible asset acquisitions during the year	(612)	(485)
Depreciation	78	93
Increase in debtors	(4,506)	(41)
Increase in creditors	1,782	871
Net cash used in operating activities	(21,576)	(15,267)
<b>Cash flows from investing activities</b>		
(Decrease)/increase in cash equivalents in financial instruments	(42,330)	71,999
Net cash (used in)/from investing activities	(42,330)	71,999
<b>Net (decrease)/increase in cash and cash equivalents (including investments)</b>	<b>(63,906)</b>	<b>56,732</b>
Financial instruments, treasury, cash balances and overdraft at 1 January	938,418	881,686
<b>Financial instruments, treasury, cash balances and overdraft at 31 December</b>	<b>874,512</b>	<b>938,418</b>

ANALYSIS AND RECONCILIATION OF NET FUNDS	At 1.1.18 £'000s	Increase/ (decrease) £'000s	At 31.12.18 £'000s
Cash at bank and in hand	298	51	349
Overdraft	(2,032)	1,308	(724)
Balances with States Treasury	213	(213)	-
	(1,521)	1,146	(375)
Financial instruments	939,939	(65,052)	874,887
	938,418	(63,906)	874,512

The overdraft arises as a result of timing differences only and is therefore a technical overdraft arising due to accounting treatments.

Notes 1 to 19 form an integral part of these financial statements.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2018

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. ACCOUNTING POLICIES

The Social Security – Contributory Funds (the “Contributory Funds”) comprise the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-Term Care Fund formed in accordance with Section 100(3) of the Social Insurance (Guernsey) Law, 1978, Section 1(4) of the Health Service (Benefit) (Guernsey) Law, 1990 and Section 1(4) of the Long-term Care Insurance (Guernsey) Law, 2002.

The financial statements are prepared in accordance with the particular accounting policies described below:

##### a) Accounting convention

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (“FRS 102”) “The Financial Reporting Standard applicable in the UK and Republic of Ireland” except for certain disclosures required to be prepared by financial institutions in respect of financial instruments mainly in relation to level 3 investments. Given the complexity and extensive requirements of these disclosures, the Committee has not provided all the relevant disclosures required by FRS 102. The Committee is working to provide such disclosures in future years.

##### b) Going Concern

The Committee members and principal officers have reviewed the budget and projected income and expenses over the next twelve months and deem that each of the Contributory Funds have adequate financial resources to meet its obligations. Each of the Contributory Funds is therefore deemed to be a going concern.

##### c) Contributions & States grant

Contributions represent the amount of cash received before 1 February 2019 in respect of the financial year ended 31 December 2018 and amounts received relating to prior financial periods not accounted for in those prior periods.

The grants received from the States of Guernsey are based on a fixed percentage of contributions, accounted for in the relevant period and for 2018 was 14.7% (2017: 14.7%) in respect of the Guernsey Insurance Fund. The grant to the Guernsey Health Service Fund was again suspended in 2018 (2017: nil) in order to assist with the General Revenue funding challenges in respect of Health & Social care services.

##### d) Benefits payable

Benefits are accounted for on an accruals basis.

##### e) Actuarial Review

The financial statements summarise the transactions of the Contributory Funds and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay benefits which fall due after the end of the financial year. The adequacy of the Contributory Funds is, however, subject to actuarial review at least once every five years to determine the adequacy of contribution rates. A review for the five year period 2010 to 2014 was undertaken in 2015 and the results published in the November 2016 Billet D’Etat XXVII.

##### f) Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. The costs of computer development projects are capitalised as and when they are considered to be material on an individual project basis. Depreciation is provided on cost at the following annual rates so as to write off the assets over their anticipated useful lives:

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 1. ACCOUNTING POLICIES (continued)

##### e) Tangible fixed assets (continued)

Fixed asset categories	Estimated useful life in	Depreciation % per annum
Buildings	80	1.25 straight line
Furniture and fittings	10	10.00 straight line
Office equipment	5	20.00 straight line
Computer equipment and software	3	33.33 straight line
Computer development	3	33.33 straight line
Computer development – Technological migration	7	14.29 straight line

##### g) Common Investment Fund

The investments of the Contributory Funds form the Common Investment Fund. The allocation to the individual Contributory Funds is based on a percentage of amounts contributed by each fund into the Common Investment Fund, as determined by the Committee.

##### h) Financial instruments

Financial assets and financial liabilities are recognised when the Contributory Funds become a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

##### *Financial assets and liabilities*

All financial assets and liabilities are initially measured at transaction price, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the Committee intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

##### *Investments*

Investments are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets. Otherwise, the closing single price, single dealing price or most recent transaction price is used.

Where quoted or other unit prices are not available, the Committee adopts valuation techniques appropriate to the class of investment. Details of the valuation techniques and principle assumptions are given in the notes to the financial statements where used. The methods of determining fair value for the principle classes of investments are:

- Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager at or before year end.



## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 1. ACCOUNTING POLICIES (continued)

##### h) Financial instruments (continued)

###### *Investments (continued)*

- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated, through consultation with its advisors, by the Committee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at the value, in which case adjustment is made.
- Exchange traded futures are valued at the difference between exchange settlement prices and inception prices.
- Swaps are valued at the net present value of future cash flows arising therefrom.
- Over the counter options are valued by the investment manager using generally accepted pricing models such as Black Scholes, where inputs are based on market data at the year-end date.
- Forward exchange contracts are valued at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- Partnership investments are valued on the basis of the latest available net asset value if it is within one month prior to the year-end or where there has been a significant investment in the partnership subsequent to the latest valuation, to estimate the fair value of the partnership by using the price at which the amount of any significant investments is made.

###### *Derivatives*

All open derivatives are stated at their closing market values established by reference to the applicable index.

###### *Security Lending*

Securities lending is where securities are transferred from the Funds' custodian to a borrower against collateral in the form of cash. When the loan is terminated, identical securities are to be returned. The borrower is obligated to compensate the lender for various events relating to securities, such as subscription rights, dividends etc. Securities that are lent out are not removed from the Funds' Statement of Net Assets. Lending fees are recorded daily as interest income on lending. The borrower has voting rights attached to the securities during the lending period. Collateral received is not recorded unless it is reinvested. Income and realised and unrealised gains/losses on reinvested securities are recorded in the Fund account.

###### *Capital movements – Realised and unrealised*

Realised profits and losses on investments are calculated by reference to the net proceeds on disposal and the average cost attributable to those investments. Realised surpluses and deficits on the partial sale of investments are arrived at by deducting the average cost of such investments from the sales proceeds. The purchase and sales of investments are accounted for on the trade date. Unrealised profits and losses on investments are calculated by reference to the carrying value at the year end and the carrying costs of investments held. All realised and unrealised profits and losses on investments are reflected in the Aggregated Fund Account.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. ACCOUNTING POLICIES (continued)**

**h) Financial instruments (continued)**

***Other assets***

Debtors are recognised at amortised cost, less any impairment losses. These comprise mainly contributions due and benefits prepaid at the reporting date and are short term in nature.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and in hand and balances held by States Treasury on behalf of the Contributory Funds. Whilst the Contributory Funds operates four bank accounts, the entity will make payments and receive money via bank accounts held centrally by the States of Guernsey. The net cash balance held with the States of Guernsey at the year end is treated as Cash and Cash Equivalents on the Contributory Funds' statement of financial position. This net cash balance may change on a daily basis, with surplus cash balances generating financial returns, and balances in deficit being charged interest. Any net cash balance held with the States of Guernsey could be reduced over a very short period of time without detriment, and therefore is considered to be a highly liquid investment, readily convertible to known amounts of cash and subject to an insignificant risk of any change in notional value.

***De-recognition of basic financial instruments***

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Fund transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Fund, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

**i) Foreign Currency**

***Functional and presentational currency***

The financial statements are presented in Pounds Sterling, which is the functional and presentational currency of the Contributory Funds.

**j) Pension costs**

As described in note 14, the Committee has applied the provisions of FRS 102, section 27 in respect of defined contribution arrangements.

**k) Critical accounting judgements and estimates**

As stated above, investments in unlisted funds (including limited partnerships) are valued at the net asset value of that investment as determined in accordance with the terms of the funds' constitutive documents and notified by the fund manager or administrator as at the valuation date.

The valuation date of each fund may not always be co-terminus with the valuation date of the Contributory Funds, and in such cases, the valuation of the fund as at the last valuation date of the fund is used i.e. the latest available price is used on the valuation date. The net asset values reported by the relevant fund manager or administrator and used by the Committee as at 31 December 2018 may be unaudited as at that date and may differ from the amounts which would have been realised from a redemption of the investment in the relevant fund as at 31 December 2018. However, it is the belief of the Investment Manager and the Committee that the latest available net asset value used on the valuation date will not be materially different from the net asset value used to realise these investments held at 31 December 2018.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 2. CONTRIBUTIONS

	2018	2017
	£'000s	£'000s
Employer contributions	76,414	73,621
Employee contributions	75,677	73,075
	152,091	146,696
Self-employed contributions	16,753	16,296
Non-employed contributions	9,873	9,488
Employer surcharge and penalty	41	4
Movement in contributions unallocated	68	229
	<b>178,826</b>	<b>172,713</b>
<b>Contribution income allocated to:</b>		
Guernsey Insurance Fund	109,764	106,582
Guernsey Health Service Fund	41,024	39,541
Long-term Care Insurance Fund	28,038	26,590
	<b>178,826</b>	<b>172,713</b>

#### 3. BENEFITS PAYABLE

	Note	2018	2017
		£'000s	£'000s
Guernsey Insurance Fund	4	144,918	137,246
Guernsey Health Service Fund	5	42,188	41,213
Long-term Care Insurance Fund	6	19,632	19,416
		<b>206,738</b>	<b>197,875</b>

#### 4. BENEFITS PAYABLE: GUERNSEY INSURANCE FUND

	Note	2018	2017
		£'000s	£'000s
Pension		123,455	117,477
Incapacity		8,577	7,990
Sickness		4,134	3,862
Bereavement		1,498	1,551
Travelling allowance grant		2,785	2,043
Unemployment		898	998
Parental		2,268	2,130
Industrial disablement		528	496
Industrial injury		267	181
Death grant		350	373
Industrial medical		139	128
		<b>144,899</b>	<b>137,229</b>
Benefit debt written-off		10	3
Doubtful debt provision - movement		9	14
	<b>3</b>	<b>144,918</b>	<b>137,246</b>

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 5. BENEFITS PAYABLE: GUERNSEY HEALTH SERVICE FUND

	Note	2018 £'000s	2017 £'000s
Drugs and medicines	5(a)	16,813	16,247
Specialist Health Insurance Scheme	5(b)	20,725	20,553
Consultation grants	5(c)	3,389	3,302
Visiting medical consultants		798	760
Under 21 Contraception		84	-
Healthy Minds ( <i>formerly Primary Care Mental Health &amp; Wellbeing</i> )		379	351
	<b>3</b>	<b>42,188</b>	<b>41,213</b>

#### 5(a). DRUGS AND MEDICINES

	Note	2018 £'000s	2017 £'000s
Drugs and medicines		17,627	17,159
Appliances		961	889
Oxygen Service		459	386
		<b>19,047</b>	<b>18,434</b>
Prescription charges receivable		(2,234)	(2,187)
	<b>5</b>	<b>16,813</b>	<b>16,247</b>

#### 5(b). SPECIALIST HEALTH INSURANCE SCHEME

	Note	2018 £'000s	2017 £'000s
Specialist medical benefit		18,135	18,046
Physiotherapy benefit		2,316	2,222
Alderney hospital benefit		274	285
	<b>5</b>	<b>20,725</b>	<b>20,553</b>

A new contract between the States and the Medical Specialist Group was signed in March 2017, effective from 1 January 2018. Unlike the previous contract, the States will act through the Committee for Health & Social Care only, with involvement from the Committee for Employment & Social Security limited to the provision of funding. Key Performance Indicators have been included in the contract, which will enable the service to be monitored closely.

A 12 month rolling contract has been introduced with the Guernsey Therapy Group, replacing the contract that expired on 31 December 2017.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 5(c). CONSULTATION GRANTS

Note	2018 £'000s	2017 £'000s
Doctor consultation grants	2,916	2,838
Nurse consultation grants	473	464
<b>5</b>	<b>3,389</b>	<b>3,302</b>

#### 6. BENEFITS PAYABLE: LONG-TERM CARE INSURANCE FUND

Note	2018 £'000s	2017 £'000s
<b>Residential home care benefit</b>		
Permanent	6,460	6,119
Permanent with EMI supplement	4,043	3,570
Respite care	65	103
Respite care with EMI supplement	36	47
	<b>10,604</b>	<b>9,839</b>
<b>Nursing home care benefit</b>		
Permanent	8,985	9,471
Respite care	43	106
	<b>9,028</b>	<b>9,577</b>
<b>3</b>	<b>19,632</b>	<b>19,416</b>

#### 7. ADMINISTRATION

	2018 £'000s	2017 £'000s
Salaries and pension costs	5,395	5,127
Other staff costs	15	14
IT and communication	634	638
Consultancy and contracted out work	416	439
Administration	283	312
Premises	225	204
Health & Social Services Committee charges	455	185
Policy & Resources Committee charges	700	734
Supplies and Services	194	191
Audit fee	53	53
	<b>8,370</b>	<b>7,897</b>
Amounts received from General Revenue	(1,907)	(1,779)
	<b>6,463</b>	<b>6,118</b>
<b>Administration expenses allocated to:</b>		
Guernsey Insurance Fund	4,533	4,486
Guernsey Health Service Fund	1,622	1,321
Long-term Care Insurance Fund	308	311
	<b>6,463</b>	<b>6,118</b>

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 8. INVESTMENT RETURNS

Note	2018 £'000s	2017 £'000s
<b>Income</b>		
Interest from fixed interest securities	2,699	8,925
Dividends from equities	-	106
Distributions from property funds	137	124
Interest on short term deposits and bank interest	2,075	127
Securities lending (less expenses)	-	36
Venture capital and partnerships	1,843	1,265
Less: Withholding tax suffered	(10)	(24)
	<b>6,744</b>	<b>10,559</b>
<b>Expenditure</b>		
Investment managers' fees	592	1,229
Investment advisor's fees	360	360
Custody fees	26	31
Performance monitoring fees	33	24
Policy & Resources Committee charges	59	14
	<b>1,070</b>	<b>1,658</b>
<b>Net investment income</b>	<b>5,674</b>	<b>8,901</b>
Realised gain/(loss) on disposal	9,225	76,480
Movement on unrealised profit	(57,229)	(13,382)
<b>Total (deficit)/surplus for the year</b>	<b>(42,330)</b>	<b>71,999</b>
<b>Investing activities allocated to:</b>		
Guernsey Insurance Fund	(33,132)	57,604
Guernsey Health Service Fund	(5,298)	9,175
Long-term Care Insurance Fund	(3,900)	5,220
	<b>(42,330)</b>	<b>71,999</b>

Investment managers' fees relate to fees paid by the contributory fund and exclude management fees and other expenses charged directly on pooled funds.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 9. TANGIBLE ASSETS

	1.1.2018	Additions	31.12.2018
	£'000s	£'000s	£'000s
<b>Cost</b>			
Freehold land and buildings	3,898	146	4,044
Plant and equipment	1,034	10	1,044
Information technology	9,679	456	10,135
	<b>14,611</b>	<b>612</b>	<b>15,223</b>
	1.1.2018	Depreciation	31.12.2018
	£'000s	£'000s	£'000s
<b>Accumulated Depreciation</b>			
Freehold land and buildings	1,405	49	1,454
Plant and equipment	933	24	957
Information technology	9,348	5	9,353
	<b>11,686</b>	<b>78</b>	<b>11,764</b>
<b>Net book value</b>	<b>2,925</b>		<b>3,459</b>

Freehold land and buildings comprises Edward T Wheadon House, which was valued at 31 December 2008 by a firm of estate agents and valuers, at an open market value of £11.02m.

The Committee has reviewed fixed assets for evidence of impairment and no adjustment has been made to the carrying value of tangible fixed assets (2017: £Nil).

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 10. FINANCIAL INSTRUMENTS

Common Investment Fund (CIF) at Fair Value	31.12.2018 £'000s	31.12.2017 £'000s
Equities and derivatives	396,290	378,904
Alternative investments and hedge funds	249,845	311,267
Cash and cash equivalents	105,109	132,013
Fixed income and derivatives	75,808	88,334
Venture Capital & Partnerships	40,788	24,705
Property funds	7,047	4,716
	<b>874,887</b>	<b>939,939</b>
<b>Investments allocated to:</b>		
Guernsey Insurance Fund	687,922	752,020
Guernsey Health Service Fund	110,491	119,779
Long-term Care Insurance Fund	76,474	68,140
	<b>874,887</b>	<b>939,939</b>

CIF movements during the year	2018 £'000s	2017 £'000s
<b>Market value 1 January</b>	939,939	881,171
Investment income reinvested	6,952	10,570
Realised (loss)/profit on disposal reinvested	9,225	76,480
Movement on unrealised (loss)/profit on investments	(57,229)	(13,382)
	<b>898,887</b>	<b>954,839</b>
Withdrawal of monies invested	(24,000)	(14,900)
<b>Market value 31 December</b>	<b>874,887</b>	<b>939,939</b>

During 2018, the Common Investment Fund was managed by ten (2017: nine) investment managers, namely: BlackRock Investment Management (UK) Limited; Legg Mason Global Asset Management; Morgan Stanley Investment Management Limited, GMO UK Limited, CQS Global Funds, AQR Funds, M&G Investments, MAN funds, Apollo and 24AM Vontobel.

The governance of the Fund is supported by the custodian, Northern Trust Global Services Limited and a professional investment adviser, Redington Limited.



## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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For the year ended 31 December 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 10. FINANCIAL INSTRUMENTS (continued)

##### Fair Value Measurement

FRS 102 requires disclosure surrounding the level in fair value hierarchy in which fair value measurement inputs are categorised for assets and liabilities in the Balance Sheet. The determination of the fair value for financial assets and liabilities for which there is no observable price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective. The investments of common investment fund are categorised using the following hierarchy as defined by FRS 102:

- Level 1 - Quoted market prices in an active market for an identical instrument;
- Level 2 - Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data; or
- Level 3 - Valuation techniques using significant unobservable inputs. This category includes all investments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table analyses within the fair value hierarchy the Common Investment Fund measured at fair value at the year-end date:

Fair Value at 31.12.2018	Level 1	Level 2	Level 3	Total
	£'000s	£'000s	£'000s	£'000
Equities and derivatives	-	388,550	7,740	396,290
Alternative investments and hedge funds	-	229,450	20,395	249,845
Cash and cash equivalents	105,263	(154)	-	105,109
Fixed income and derivatives	-	60,690	15,118	75,808
Venture capital and partnerships	-	-	40,788	40,788
Property funds	-	-	7,047	7,047
<b>Common Investment Fund</b>	<b>105,263</b>	<b>678,536</b>	<b>91,088</b>	<b>874,887</b>

Fair Value at 31.12.2017	Level 1	Level 2	Level 3	Total
	£'000s	£'000s	£'000s	£'000
Equities and derivatives	250,382	(314)	128,836	378,904
Alternative investments and hedge funds	145,201	-	166,066	311,267
Cash and cash equivalents	130,567	1,446	-	132,013
Fixed income and derivatives	85,563	2,770	-	88,333
Venture capital and partnerships	-	-	24,706	24,706
Property funds	-	-	4,716	4,716
<b>Common Investment Fund</b>	<b>611,712</b>	<b>3,902</b>	<b>324,324</b>	<b>939,939</b>

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 10. FINANCIAL INSTRUMENTS (continued)

The fair valuation of any level 3 investments require the exercise of professional skill and judgement and naturally the fair values derived will have an element of estimation uncertainty as well as a likely range of potential valuation outcomes.

The level 3 investments consist of pooled investment funds, private equity and venture capital funds, real estate funds and infrastructure funds which typically involve the purchase and redemption of shares from the fund itself rather than a secondary market. The majority of level 3 investments have therefore been measured at fair value using the reported net asset value ("NAV") as this is the approximate value at which shares are redeemable and therefore a basis for current transactions. No adjustment has been made for restrictions on redemption, which are all for periods of greater than 3 months, or for factors such as the marketability of the investment due to it not being listed.

#### Transfers between levels

There have been no transfers between the levels during the year (2017: None).

Assets at 31.12.2018	Fair Value through profit or loss £'000s	Amortised Cost £'000s	Total £'000s
Financial instruments (Common Investment Fund)	874,887	-	874,887
Tangible fixed assets	-	3,459	3,459
Treasury deposit and other cash	-	(375)	(375)
Trade and other receivables	-	38,205	38,205
Trade and other payables	-	(10,005)	(10,005)
	<b>874,887</b>	<b>31,284</b>	<b>906,171</b>

Assets at 31.12.2017	Fair Value through profit or loss £'000s	Amortised Cost £'000s	Total £'000s
Financial instruments (Common Investment Fund)	939,939	-	939,939
Tangible fixed assets	-	2,925	2,925
Treasury deposit and other cash	-	(1,699)	(1,699)
Trade and other receivables	-	29,182	29,182
Trade and other payables	-	(3,706)	(3,706)
	<b>939,939</b>	<b>26,702</b>	<b>966,641</b>

The financial instruments are based on fair value while the other assets and liabilities are based on the amortised cost equivalent.

The Committee do not believe that there is any material difference between the fair value and the amortised cost equivalent other than Freehold Land and Buildings included in tangible fixed assets which were valued at £11.02m at 31 December 2008 (see note 9).

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11. DEBTORS DUE WITHIN ONE YEAR

	31.12.18 £'000s	31.12.17 £'000s
Contributions receivable	25,987	25,067
States of Guernsey Intercompany debtors	2,900	1,349
Benefits and allowances prepaid	4,245	2,347
Administration expenses prepaid	224	211
Trade debtors	195	100
	<b>33,551</b>	<b>29,074</b>

#### 12. DEBTORS DUE AFTER ONE YEAR

	31.12.18 £'000s	31.12.17 £'000s
Benefit debt	201	201
Provision for doubtful debts	(87)	(93)
	<b>114</b>	<b>108</b>

#### 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.12.18 £'000s	31.12.17 £'000s
Benefits and allowance payable	3,883	1,760
Other creditors and accruals	999	1,919
Trade creditors	606	27
	<b>5,488</b>	<b>3,706</b>

#### 14. SUPERANNUATION FUND

The employees of Committee *for* Employment & Social Security are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings (CARE) basis up to a salary cap (currently £90,074 (2017: £87,434)) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

The Scheme is funded by contributions from both members and employer which are invested through the States of Guernsey Superannuation Fund. The employer rate for the defined benefits are determined on the basis of independent actuarial advice, and calculated to spread the expected cost of benefits payable to employees over the period of those employees' expected service lives.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**14. SUPERANNUATION FUND (CONTINUED)**

Although the scheme is a multi-employer plan, it is not possible to identify the Committee's share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. There is neither an agreement nor a policy in place to allocate any of the deficit of the pension scheme across the participating entities. The States of Guernsey is liable for any obligations that arise from the States of Guernsey Superannuation Fund in respect of employees of the States of Guernsey. All employees of the Committee are considered to be ultimately employees of the States of Guernsey. Consequently, the Committee has accounted for the plan as if it were a defined contribution plan, whereby it has expensed employer contributions through the Fund Account. The employees also contribute to the States of Guernsey Superannuation Fund. The contribution rates are determined by a qualified actuary on the basis of triennial valuations.

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2018.

**15. RELATED PARTY TRANSACTIONS**

The Committee members confirm that there have been no related party transactions to disclose with members and senior management in this financial year (2017: Nil). Of the Committee's annual income and expenditure, less than 20% of their respective value for both 2018 and 2017 is due to transactions with other States entities, except as disclosed in notes 1, 2, 5, 7, 11 and 13. Balances with the States Treasury at the year-end amounted to £nil (2017: £213k).

**Key management personnel compensation disclosure**

For the year, total staffing costs associated with the Committee's key management was £1.19m (2017: £1.05m), comprising 13.9 full-time equivalent staff (2017: 12.9 FTE). The increase in the number of key management is due to the filling of vacancies during the year. Approximately £0.58m of total costs is allocated to the Contributory Funds (2017: £0.50m), the balance being charged to General Revenue.

**16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS**

The Committee's activities expose it to a number of financial and associated risks, especially with regard to the investing activities of the Common Investment Fund and the possibility that an event or situation arises that reduces the likelihood of achieving its financial objectives.

In respect of the Common Investment Fund, there are many different types of specific risk including: governance risk, financial exposure market risk; performance risk; demographic exposure risk; and operational risk.

**Governance Risk**

The risk associated with poor governance essentially occurs where there is a failure to act as issues emerge.

Governance is the framework within which other risks are considered. The result of this consideration should, where appropriate, lead to action. Key controls and risk mitigation include:

- Objectives are well understood;
- Fund manager and other provider mandates are well defined;
- Strategic review of the Contributory Funds is undertaken regularly; and
- Fund managers and providers are asked to articulate how their strategies might perform in different market and economic conditions.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

##### Governance Risk (Continued)

Once this is done, the risks in the other areas can be defined and evaluated. The focus is then on designing metrics and benchmarks that are consistent with the conditions identified above.

##### Financial Exposure Risk

Financial exposure risk is the potential for losses (compared to objectives) from falling asset values resulting from market movements.

The Committee considers financial exposure risk in three categories and makes use of three modelling approaches to help understand each of these.

Risk	Cause	Indicative magnitude of loss	Time to recover
Regular Market Volatility	Trading activity and market sentiment	10%-15%	Months to one year
Market Stress	Market issues e.g. credit/currency or demand/supply issues	20%	1 to 2 years
Permanent Loss	Overvaluation or economic regime change	50%-85%	Can be decades

Regular Market Volatility can be measured using a value-at-risk type model which can estimate the expected volatility of an investment strategy in normal market conditions. Market Stress is measured by calculating the effect of one off market shocks e.g. a sharp fall in equity values or significant rise in inflation. To measure the risk of permanent loss, a range of economic scenarios is identified and projections made as to how the strategy would perform in each of these situations.

In each case the Committee will develop with each investment manager, explicit constraints within which risk is managed. The risk of Permanent Loss is the initial focus of any analysis as these are the biggest and longest-lived risks faced by the Committee.

In order to fully test an investment strategy all three of the models will be used to assess how robust the strategy is against the three different types of risk. When considering a strategy the Committee will use models to test robustness and as a useful comparison between strategies, but will also apply a qualitative assessment of the strategy to ensure the results are sensible, defensible and meet the non-financial needs of the Committee.

##### Market risk

The fair value of future cash flows of a financial instrument held by the Common Investment Fund may fluctuate because of changes in market prices.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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For the year ended 31 December 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

##### *Market price risk sensitivity*

The following table illustrates the sensitivity of the Common Investment Fund to a movement in the fair values of the all asset classes. A 5% variance in the fair values would have resulted in an increase or decrease of equal value.

	31.12.2018	31.12.2017
	£'000s	£'000s
Fair value at year-end	874,887	939,939
Variance of 5% in fair value	±43,744	±46,997

The market risk comprises of five other elements – currency risk, interest rate risk, credit risk, counterparty risk and liquidity risk. Information to enable an evaluation of the nature of these four elements is given in (i) to (iv) below, together with sensitivity analyses where appropriate.

The Committee reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. Each investment manager assesses their exposure to market risk when making each investment decision and monitors the overall level of market risk on the investment portfolio under its management on an ongoing basis.

##### *Open Option Contracts*

There were 3 (2017: 3) open option contracts at the year-end. An analysis of the open contracts is as follows:

Contract	Settlement Date	Purchase Price	31.12.18	31.12.17
			Fair Value £'000s	Fair value £'000s
MSCI World C @ 1960.000	27/07/2020	16,220	11,378	23,068
MSCI World P @ 2260.000	27/07/2020	(5,304)	(2,743)	(8,672)
MSCI World P @ 1275.000	27/07/2020	(3,044)	(2,022)	(1,940)
		<b>7,872</b>	<b>6,613</b>	<b>12,456</b>

##### **(i) Currency risk**

Certain of the Common Investment Fund's assets and liabilities and income are denominated in currencies other than sterling, which is the base currency of the Fund and the Committee's financial statements. As a result, movements in exchange rates will affect the Sterling value of those items.

##### *Management of currency risk*

The investment managers are responsible for managing currency risk and monitoring exposure to foreign currencies. Investment managers are permitted to use forward foreign currency exchange contracts to limit the exposure to anticipated changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Income denominated in foreign currencies is converted into Sterling.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

##### *Open forward foreign currency contracts*

There were 5 (2017: 5) open forward currency contracts at the year-end. An analysis of the open contracts is as follows:

Contract	Settlement Date	Currency	Contracted Amount £'000s	31.12.18 Fair value £'000s
Forward FX Purchase	1 month	GBP	80,192	80,192
Forward FX Sale	1 month	AUD	(1,197)	(1,167)
Forward FX Sale	1 month	CAD	(2,951)	(2,881)
Forward FX Sale	1 month	EUR	(6,097)	(6,078)
Forward FX Sale	1 month	USD	(69,947)	(70,299)
			-	(233)

Contract	Settlement Date	Currency	Contracted Amount £'000s	31.12.17 Fair value £'000s
Forward FX Purchase	1 month	GBP	114,930	114,930
Forward FX Sale	1 month	AUD	(791)	(799)
Forward FX Sale	1 month	CAD	(1,101)	(1,119)
Forward FX Sale	1 month	EUR	(5,787)	(5,801)
Forward FX Sale	1 month	USD	(107,251)	(105,843)
			-	1,368

##### *Foreign currency exposure*

At the year-end, the net currency exposure of the Contributory Funds, including the Common Investment Fund (CIF), was as follows:

31.12.18	Monetary Assets £'000s	Monetary Liabilities £'000s	Non-Monetary Assets £'000s	Non-Monetary Liabilities £'000s	Forward FX Contracts £'000s	Total £'000s
GBP	100,096	(2)	695,676	-	80,192	875,962
AUD	-	-	1,148	-	(1,167)	(19)
CAD	119	-	2,820	-	(2,881)	58
EUR	-	-	6,047	-	(6,078)	(31)
USD	5,120	-	68,861	(4,765)	(70,299)	(1,083)
Total (CIF)	105,335	(2)	774,552	(4,765)	(233)	874,887
GBP	349	(724)	37,147	(5,488)	-	31,284
<b>Total</b>	<b>105,684</b>	<b>(726)</b>	<b>811,699</b>	<b>(10,253)</b>	<b>(233)</b>	<b>906,171</b>

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

##### *Foreign currency exposure (continued)*

31.12.17	Monetary Assets	Monetary Liabilities	Non-Monetary Assets	Non-Monetary Liabilities	Forward FX Contracts	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
GBP	128,836	(2)	703,900	(12,770)	114,930	934,894
AUD	-	-	824	-	(800)	24
CAD	8	-	889	-	(1,119)	(222)
EUR	112	(107)	5,807	-	(5,801)	11
USD	1,799	-	119,887	(10,611)	(105,843)	5,232
Total (CIF)	<b>130,755</b>	<b>(109)</b>	<b>831,307</b>	<b>(23,381)</b>	<b>1,367</b>	<b>939,939</b>
GBP	333	(2,032)	32,107	(3,706)	-	26,702
<b>Total</b>	<b>131,088</b>	<b>(2,141)</b>	<b>863,414</b>	<b>(27,087)</b>	<b>1,367</b>	<b>966,641</b>

At 31 December 2018, had the GBP strengthened by 5% in relation to other currency exposure of the Common Investment Fund (CIF), with all other variables held constant, the valuation of the CIF would have changed by the amounts shown below. The analysis is performed on the same basis for 2016. A 5% weakening of GBP against other currencies respectively would have resulted in an equal but opposite effect.

Foreign Currency Exposure – Sensitivity Analysis	31.12.2018	31.12.2017
	£'000s	£'000s
AUD	(1)	(1)
CAD	3	11
EUR	(1)	(1)
USD	(52)	(261)
<b>Total</b>	<b>(51)</b>	<b>(252)</b>

#### (ii) Interest rate risk

Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

##### **Management of interest rate risk**

The interest rate profile of the Contributory Funds at year-end is as follows:

Interest rate profile 31.12.18	Fixed	Floating	Total
	£'000	£'000	£'000
Cash and cash equivalents	-	102,393	102,393
Equities and derivatives	6,613	-	6,613
Fixed income and derivatives	-	74,962	74,962
<b>Total</b>	<b>6,613</b>	<b>177,355</b>	<b>183,968</b>



## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

##### *Management of interest rate risk (continued)*

Interest rate profile 31.12.17	Fixed	Floating	Total
	£'000	£'000	£'000
Cash and cash equivalents	-	19,107	19,107
<b>Total</b>	<b>-</b>	<b>19,107</b>	<b>19,107</b>

The majority of investments with fixed and floating rates are held in pooled investment funds and, as such, the interest rate risk is managed by the underlying investment managers. These exposures are therefore not included in the above tables.

The Common Investment Fund has 3 direct holdings in fixed interest securities (2017: None) and floating rate assets comprise cash held within the Common Investment Fund. No sensitivity analysis has been provided on the basis that any movement would not be material to the Common Investment Fund.

##### **(iii) Credit risk**

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in loss to the Contributory Funds.

It is the responsibility of the investment managers to monitor dealing activity to ensure best execution, which involves measuring various indicators including the quality of the trade settlement and incidence of failed trades. Counterparties must be pre-approved by the Investment managers' credit committees.

The Committee's Custodian is Northern Trust Limited which has a credit rating of AA- from Standard & Poor's, Aa2 from Moody's, AA from Fitch Ratings and AA from DBRS. The Committee's investments are held in accounts which are segregated from the Custodian's own trading assets. If the Custodian were to become insolvent, the Committee's right of ownership is clear and they are therefore protected. However, the Committee cash balances, which are held with the Custodian, may be at risk in this instance as the Committee would rank alongside other creditors of the Custodian.

##### **(iv) Counterparty risk**

Counterparty risk is the risk of the counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.

##### **(v) Liquidity risk**

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the cash flow requirements of the Committee need to be monitored to control the timing of investment and divestment to and from the Common Investment Fund. As the Committee has entered a long-term period of annual operating deficits, cash flow management including increased short-term fixed income features increasingly in the management and governance of the Common Investment Fund.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

The liquidity analysis of the Contributory Funds at year-end is as follows:

Liquidity Analysis	Within 1 month	1 to 3 months	3 to 12 months	Over 12 months	31.12.18 Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Financial instruments	6,494	550,981	250,552	66,860	874,887
Tangible assets	-	-	-	3,459	3,459
Treasury Deposit and other cash	(375)	-	-	-	(375)
Trade and other receivables	33,574	-	-	114	33,688
Trade and other payables	(5,488)	-	-	-	(5,488)
<b>Total</b>	<b>34,205</b>	<b>550,981</b>	<b>250,552</b>	<b>70,433</b>	<b>906,171</b>
<b>% of Total</b>	<b>3.8%</b>	<b>60.8%</b>	<b>27.6%</b>	<b>7.8%</b>	<b>100.0%</b>

Liquidity Analysis	Within 1 month	1 to 3 months	3 to 12 months	Over 12 months	31.12.17 Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Financial instruments	20,474	560,153	277,688	81,624	939,939
Tangible assets	-	-	-	2,925	2,925
Treasury Deposit and other cash	(1,699)	-	-	-	(1,699)
Trade and other receivables	29,074	-	-	108	29,182
Trade and other payables	(3,706)	-	-	-	(3,706)
<b>Total</b>	<b>44,143</b>	<b>560,153</b>	<b>277,688</b>	<b>84,657</b>	<b>966,641</b>
<b>% of Total</b>	<b>4.6%</b>	<b>57.9%</b>	<b>28.7%</b>	<b>8.8%</b>	<b>100.0%</b>

The financial instruments are based on fair value while the other assets and liabilities are based on the amortised cost equivalent.

The investments categorised under the level 1 Fair Value hierarchy are valued at £105m at the year-end (2017: £612m). Investments with quoted prices and traded on an active market could usually be liquidated within one month. However, due to the size of certain of the level 1 holdings, it is assumed it that may take longer to liquidate some of these holdings and as such they have been analysed as 1-3 months.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**17. CAPITAL MANAGEMENT**

The Committee's objectives when managing capital include safeguarding its ability to continue as a going concern and to ensure that each of the Contributory Funds has adequate financial resources to meet its obligations both in the short and long-term.

The Contributory Funds have no externally imposed capital requirements.

As part of its capital management, the Committee is responsible in law for setting investment policy, strategy and implementation. In discharging this responsibility, the Committee contracts advice from expert external advisers. The committee has delegated the responsibility for the direct governance of its investment funds to an Investment Sub-Committee.

In addition to the Committees financial risk management as detailed in note 18, the management of other associated and qualitative risks as follows:

**Demographic Risk**

The risk of an increased cash flow requirement from the Fund resulting from demographic changes such as an increase in life expectancy, or reduction in working population.

Financial exposure risks are important, but the impact of demographics on the commitments of the funds may be just as relevant.

The demographics risks may affect the drawdown from the Fund in a number of ways:

- **Mortality:** Where benefits are related to death, the value of the benefit will be driven by this. This is particularly an issue in relation to the provision of pensions, where payments are made until the death of the beneficiary. Improvements in life expectancy would naturally result in paying out more than expected, which represents a risk to the Fund;
- **Ill-Health:** Some benefits relate to the incidence of ill-health, for example where this is in respect of invalidity or long-term care costs. Changes in this can result in paying benefits for longer, or greater overall levels of benefits; and
- **Structure of population:** The ability to finance the various funds is affected by the level of contributions, which in turn is related to the structure of the population. Therefore, a long run risk to the Fund is the relationship between those "paying" for the benefits and those receiving them.

These risks are important in absolute terms, but can intensify when combined with financial risks. For example, the "intensity" of an increase in longevity is magnified if the investment return on the Fund is expected to be lower. This has a very real effect on the risks of the Fund, if it affects the recommended contributions. Hence, these risks are not only about their effect on the long term cost, but also on the effect of the incidence of contributions in the short and medium term. The Actuarial Reviews that are undertaken at least every five years provide relevant information for this type of risk.

**Performance Risk**

As well as financial exposure risk, poor performance of Fund Managers and providers, including the Investment Adviser, can also have a significant effect. The key contributing risks are identified as below:

- It should be well understood what the objectives of Fund Managers and providers are and the time horizon over which these operate;
- There should be evidence that added-value is skilful (rather than lucky or the result of a persistent systemic position). The basis for skill – i.e. what it is and why it is expected to persist – should be clear and understood. If this evidence does not exist, it is difficult to have confidence in the ability of performance to be delivered;

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**17. CAPITAL MANAGEMENT (CONTINUED)**

**Performance Risk (continued)**

- All mandates involve constraints within which the Fund manager or provider must operate. It is important that operations are within the mandate and that there have been no breaches (or any breaches have been rectified quickly); and
- it is important to understand in advance how the Fund Manager or provider is expected to perform in a range of different conditions, in order that returns generated over various time horizons may be interpreted effectively.

The Committee takes advice from its Investment Adviser prior to appointing Fund Managers. All Fund Managers sign an Investment Management Agreement with the Committee setting out the legal mandate in terms of objectives, constraints and the roles and responsibilities of all related parties. The Committee monitors Fund Managers' performance to ensure they are delivering their objectives in line with their mandates.

**Review of historical performance**

Having set the performance tolerances above, these can be measured on a regular basis by comparing actual performance with the target, benchmark and where appropriate a Governance comparable figure (i.e. the Fund Manager's performance might be exaggerated or impaired because of factors that affect all similar managers in the same way).

**Operational Risk**

The risk is associated with losses resulting from weak controls, process or security. Operational risks can be either internal or external. Internal risks mainly refer to cash flow management. The Committee must ensure it plans for future cash flows and that all payments will be made in a timely manner (See: Liquidity Risk above).

Where funds are required to be moved quickly, the Committee needs to be being able to act quickly on an investment or disinvestment. External risks primarily relate to the process and control errors caused by external parties, such as Fund Managers, custodian or advisers. These risks are mitigated by thorough research and due diligence.

**18. STATEMENT OF CONTROL**

The Contributory Funds are controlled by the Committee *for* Employment & Social Security as a Principal Committee. The Committee can exercise powers and perform duties conferred on it by legislation and extant States' resolutions, including but not limited to, conferred functions on the former Social Security Department. The members of the Committee have been appointed by the States of Guernsey.

**19. SUBSEQUENT EVENTS**

There have been no material subsequent events since the reporting date which affect these financial statements.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### CONSTITUENT CONTRIBUTORY FUND ACCOUNTS

	Note	GIF 2018 £'000s	GHSF 2018 £'000s	LTCIF 2018 £'000s	TOTAL 2018 £'000s	TOTAL 2017 £'000s
<b>Income</b>						
Contributions	1(c),2	109,764	41,024	28,038	178,826	172,713
States grant	1(c)	16,135	-	-	16,135	15,668
		<b>125,899</b>	<b>41,024</b>	<b>28,038</b>	<b>194,961</b>	<b>188,381</b>
<b>Expenditure</b>						
Benefits payable	1(d),3,4,5,6	144,918	42,188	19,632	206,738	197,875
Administration	7	4,533	1,622	308	6,463	6,118
		<b>149,451</b>	<b>43,810</b>	<b>19,940</b>	<b>213,201</b>	<b>203,993</b>
<b>Operating (deficit)/surplus before depreciation charge</b>		<b>(23,552)</b>	<b>(2,786)</b>	<b>8,098</b>	<b>(18,240)</b>	<b>(15,612)</b>
Depreciation charge	9	(78)	-	-	(78)	(93)
<b>Operating (deficit)/surplus</b>		<b>(23,630)</b>	<b>(2,786)</b>	<b>8,098</b>	<b>(18,318)</b>	<b>(15,705)</b>
Investment returns	1(h),8	(33,132)	(5,298)	(3,900)	(42,330)	71,999
<b>Net (deficit)/surplus</b>		<b>(56,762)</b>	<b>(8,084)</b>	<b>4,198</b>	<b>(60,648)</b>	<b>56,294</b>
Net assets at 1 January		769,278	122,528	75,013	966,819	910,525
<b>Net assets at 31 December</b>		<b>712,516</b>	<b>114,444</b>	<b>79,211</b>	<b>906,171</b>	<b>966,819</b>

This additional information has been prepared from the accounting records of the Contributory Funds. While it does not form part of the financial statements, it should be read in conjunction with them.