

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

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

**SOCIAL SECURITY CONTRIBUTORY FUND ACCOUNTS 2019**

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 2019.

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 2019**

## **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 2019*

### **PRINCIPAL OFFICERS**

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

<b>Title</b>	<b>Name</b>	<b>Date of Election</b>
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 McSwiggan  Deputy P J Roffey	18 May 2016 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 2019*

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### STATEMENT OF ACTIVITIES

#### ***Activities during the year***

In 2019, all contribution earnings and income limits were increased by 2.4%, according to the uprating policy and in line with inflation (RPIX). This included the upper and lower earnings limits for employers, employees, and self-employed people, and the upper and lower income limits for non-employed people.

There were no increases to the contribution percentage rates.

Substantial progress was made on the Revenue Service programme. The programme, part funded by Employment & Social Security through the Guernsey Insurance Fund, is initiating organisational and system reform, which will result in as a single, fully integrated service for the operation of income tax and contributions functions. Stage two of the Revenue Service programme was completed in early 2020, and the States approved funding for the third and final stage in March 2020.

During 2019, the Committee continued work in the challenging policy areas regarding the Supported Living and Ageing Well Strategy (Billet d'État III of 2016), in particular the funding resolutions. The Committee intends to bring a Policy Letter to the States as soon as it is reasonably practical to do so, while taking into account the effects of COVID-19 on the care home sector and public finances.

A resolution to reform healthcare funding was approved by the States in May 2019 (Billet d'État X). This work will progress in 2020, including, as an interim step, a transfer of all functions in relation to health service benefits provided under the Health Service (Benefit) (Guernsey) Law, 1990 to the Committee *for* Health & Social Care. This transfer of functions can be achieved by an Ordinance of the States. The full reform of the Law will require a Projet de Loi, which will be taken to the States during 2020. Ultimately, this will result in the Guernsey Health Service Fund being terminated, with the balance of the Fund being held as the Health Service Reserve. From that point, ongoing income from a proportion of overall social security contributions will flow into General Revenue and be termed the Guernsey Health Service Allocation.

The key focus of the Secondary Pensions project was the selection of service providers for the States-facilitated pension scheme, as well as the finalisation of the necessary details to enable the submission of a Policy Letter to the States, which was approved in February 2020. The selection of service providers began in summer 2018, and throughout much of 2019, due diligence and further negotiation took place with shortlisted candidates. Ultimately, Smart Pension Ltd was selected as the Committee's preferred provider for administration services and their appointment, on a 15 year contract, was subsequently approved by the States in February 2020. This February 2020 Policy Letter built on the 'in-principle' decision that the States made in 2016. Additional detail has been provided with respect to regulation, qualifying criteria, anti-avoidance provisions as well as cost, both to the States and the wider economy.

**STATEMENT OF ACTIVITIES (Continued)**

***Activities during the year (Continued)***

The Policy Letter also provided firm proposals for the development of the scheme with a proposed launch of January 2022. Following States approval of the Policy Letter, the tenders for other aspects of the service will resume or start later in 2020. A shadow governing board will be appointed to assist in these matters and prepare for the Secondary Pension Scheme's commencement.

As part of Public Service Reform, Employment & Social Security was pleased to be at the forefront of the States' digital journey. The aim of Smart Guernsey is to deliver significant and measurable improvements in the customer experience for both internal and external customers and to enable and promote the adoption of a "digital culture" within Public Service and its partner organisations. On 16 December 2019, the first of the new digital products went live. This was the digital medical certificate. The soft launch of this product involved up to 15 GPs trialling the new certificate. By the end of 2019, 84 certificates had been issued by GPs. Initial feedback from both customers and GPs was very positive. Once further developed to integrate with the Medical Practices' and States' systems, the product is expected to be used in high volume.

***Future Activities***

The Committee remained very active in the first quarter of 2020, in order to complete and take to the States several Policy Letters. These include propositions concerning secondary pensions, disability discrimination legislation, long-term care insurance and off-island medical insurance for people unable to obtain private cover at a reasonable cost. The Committee's intention was to submit these reports so that they would be considered by the States before the General Election of Deputies in June 2020, following which the membership of the Committee would be changing. However, the COVID-19 pandemic has meant that the Committee held back from submitting the Policy Letter on the funding of long-term care, and while the Policy Letter on disability discrimination legislation was submitted, the debate of that Policy Letter has been delayed to July 2020. The General Election has now been postponed until June 2021.

In early 2020, digital unemployment benefit new claims and subsequent weekly sign-ons were launched. Progress will continue with other digital journeys under Smart Guernsey, throughout 2020, as soon as normal business can resume following the COVID-19 pandemic.

Through an Ordinance of the States, "old age pension" will be renamed "States pension". The start of the increase in the qualifying age for the States pension began on 1 January 2020. A person who reached 65 on 1 January did not immediately receive their pension, but instead had to wait 2 months until 1 March 2020. The same goes for anyone else reaching 65 between 1 January and 31 October 2020. People reaching 65 from 1 November 2020 and 31 August 2021 will have to wait 4 months beyond their 65<sup>th</sup> birthday before receiving their pension. A similar sequence of pension age increasing by 2 months every 10 months will continue until pension age becomes 70 in 2049.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
*For the year ended 31 December 2019*

### 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 £20.0m (2018: £18.3m deficit). A breakdown of the operating results is as follows:

- GIF: operating deficit of £24.6m (2018: £23.6m deficit).
- GHSF: operating deficit of £2.9m (2018: £2.8m deficit).
- LTCIF: operating surplus of £7.5m (2018: £8.1m surplus).

Total Reserves for the year increased by £47.4m (2018: £60.7m decrease). This increase is comprised of the operating deficit of £20.0m (2018: £18.3m deficit) and an increase from investing activities of £67.4m (2018: £42.3m decrease). The increase in Reserves is allocated as follows:

- GIF: +£28.3m (2018: -£56.8m) and is comprised of the operating deficit of £24.6m (2018: £23.6m deficit) and increase from investing activities of £52.9m (2018: £33.1m decrease);
- GHSF: +£5.6m (2018: -£8.1m) and is comprised of the operating deficit of £2.9m (2018: £2.8m deficit) and increase from investing activities of £8.5m (2018: £5.3m decrease). Among other factors, the operating deficit is as a 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.
- LTCIF: +£13.5m (2018: +£4.2m) and is comprised of the operating surplus of £7.5m (2018: £8.1m surplus) and increase from investing activities of £6.0m (2018: £3.9m decrease).

At the year-end total reserves stood at £953.6m (2018: £906.2m) and allocated as follows:

- GIF: £740.8m (2018: £712.5m) providing expenditure cover of 4.8 years (2018: 4.8 years);
- GHSF: £120.0m (2018: £114.4m) providing expenditure cover of 2.7 years (2018: 2.6 years); and
- LTCIF: £92.7m (2018: £79.2m) providing expenditure cover of 4.5 years (2018: 4.0 years).



## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2019

### STATEMENT OF PERFORMANCE (CONTINUED)

#### *Contribution income and states grant*

Total contribution income increased by 3.0% to £184.2m (2018: +3.5% to £178.8m). The increase is attributed mainly to employed persons, which saw an increase of 3.2% to £156.9m (2018: +3.7% to £152.1m). Income from self-employed persons increased by 1.5% to £17.0m (2018: +2.8% to £16.8m), and non-employed persons decreased by 0.4% to £9.8m (2018: +4.0% to £9.9m).

Numbers of Contributors as at week 48	2019	2018	5-Year average
<b>Employers</b>	<b>2,306</b>	<b>2,325</b>	<b>2,356</b>
Employed	29,281	29,106	28,956
Self-Employed	3,014	3,044	3,097
Non-Employed	6,010	5,946	5,824
<b>Total Contributors (excluding employers)</b>	<b>38,305</b>	<b>38,096</b>	<b>37,877</b>

The overall number of contributors, at week 48, increased by 0.5% to 38,305 (2018: 38,096). The number of employed increased by 0.6% (2018: +0.7%) while self-employed decreased by 1.0% (2018: -2.1%). Non-employed contributors increased by 1.1% (2018: +2.8%). The largest economic sector remained the financial sector, which accounted for 21% (2018: 23%) of the employed population and represented 28% (2018: 32%) of the total income received from employers and employees.

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

- GIF: +3.7% to £113.9m (2018: +3.0% to £109.8m). The grant received from the States of Guernsey, being a fixed percentage of contributions (14.7%), increased to £16.7m (2018: £16.1m);
- GHSF: +2.6% to £42.1m (2018: +3.8% to £41.0m). No grant was received from the States of Guernsey (2018: nil); and
- LTCIF: +0.9% to £28.3m (2018: +5.4% to £28.0m).

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2019

### STATEMENT OF PERFORMANCE (CONTINUED)

#### ***Benefit expenditure***

Overall benefit expenditure increased by 3.8% to £214.7m (2018: +4.5% to £206.7m). The great majority of benefits are not discretionary and their entitlement is in accordance with law. The general rate of benefit was increased by 2.4% (2018: 2.8%). The allocation between the Funds is as follows:

- GIF: +4.0% to £150.7m (2018: +5.6% to £144.9m);
- GHSF: +3.1% to £43.5m (2018: +2.4% to £42.2m); and
- LTCIF: +3.9% to £20.4m (2018: +1.1% to £19.6m).

Details of major areas of benefit expenditure follow:

<b>GIF: Pension</b>	<b>2019</b>	<b>2018</b>	<b>5-Year Average</b>
Number of claimants at the year-end	18,508	18,229	17,951
Number of approved claims during the year	940	999	991

Pension expenditure accounts for over 85% of the total benefit expenditure of GIF and for the year increased by 4.3% to £128.7m (2018: +5.1% to £123.5m). The single rate of old age pension and the addition in pension in respect of a dependant wife both increased by 2.4% (2018: 2.8%).

<b>GIF: Incapacity benefit</b>	<b>2019</b>	<b>2018</b>	<b>5-Year Average</b>
Number of claimants at the year-end	872	865	860
Number of approved claims during the year	309	394	337

Incapacity benefit increased by 2.6% to £8.8m (2018: +7.3% £8.6m). 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>2019</b>	<b>2018</b>	<b>5-Year Average</b>
Number of claimants at the year-end	139	107	159
Number of approved claims during the year	642	627	809

Unemployment benefit decreased by 19.9% to £0.7m (2018: -11% to £0.9m). The Committee continues to work on a number of back-to-work initiatives to move more people off benefit into work, including the unemployed. Despite an increase in comparison to 2018, both the number of active claims and approved claims for the year were well below the 5-year average.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2019

### STATEMENT OF PERFORMANCE (CONTINUED)

#### *Benefit expenditure (continued)*

<b>GHSF: Specialist Health Insurance Scheme</b>	<b>2019</b>	<b>2018</b>	<b>5-Year Average</b>
Medical specialist Group <i>full-time equivalent consultants (average)</i>	47.7	47.0	45.4
Guernsey Therapy Group <i>full-time equivalent physiotherapists &amp; assistants (average)</i>	38.0	35.9	36.4

Medical specialist expenditure increased by 2.9% to £18.7m (2018: +0.5% to £18.14m) with the average number of consultants increasing by 0.7 for the year.

The Physiotherapy contract is provided by the Guernsey Therapy Group. For the year, expenditure increased by 7.3% to £2.5m (2018: +4.2% to £2.3m), with the average number of therapists increasing by 2.1 to 38.0.

The Alderney contract increased slightly to £292k (2018: £274k), however Alderney doctors are still providing additional support.

<b>GHSF: Drugs and medicines</b>	<b>2019</b>	<b>2018</b>	<b>5-Year Average</b>
Total prescriptions	1,532,569	1,523,919	1,525,179
Average basic cost per item	£9.55	£9.31	£9.08

For the year, overall net expenditure in respect of drugs and medicines, after prescription charges, increased by 4.1% to £17.5m (2018: +3.5% to £16.8m). 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. The basic drug costs have increased by 2.6% (2018: +4.2%), and prescription volume increasing by 0.6%, and has only been offset by a 1.9% increase to prescription charges.

<b>LTCIF: Residential Home Care grant</b>	<b>2019</b>	<b>2018</b>	<b>5-Year Average</b>
Number of claimants at year-end - Permanent	255	260	262
Number of claimants at year-end - Permanent with EMI	130	132	116
<b>Total</b>	<b>385</b>	<b>392</b>	<b>378</b>
12-month rolling average	398	408	379

Residential Home Care benefit expenditure increased by 0.8% to £10.7m (2018: £10.6m) and saw the 12-month rolling average in active claims decrease by 2.5%. The number of claims for Residential Home Care has decreased due to the closure of Blossomfields during the year.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2019

### STATEMENT OF PERFORMANCE (CONTINUED)

#### *Benefit expenditure (continued)*

LTCIF: Nursing Home Care grant	2019	2018	5-Year Average
Number of claimants at the year-end	209	205	218
12-month rolling average	214	205	219

Nursing Home Care benefit expenditure increased by 7.6% to £9.7m (2018: £9.0m).

#### **Administration**

Total administration expenditure for the year was £8.4m (2018: £8.4m) with the recharge of administrative expenditure to Non Contributory Services (“NCS”) increasing by 8.1% to £2.06m (2018: £1.91m). Overall staffing costs decreased by 22.7% to £4.2m (2018: £5.4m). The decrease is attributable to the former Contributions team, who are now part of the Revenue Service, and therefore no longer within this Committee. The cost of their service is recharged to the Social Security Contributory Funds as contracted out work, and no longer included within pay costs, with no overall cost change.

Full-time Equivalent Staff	2019	2018
Total employed directly	86.8	116.4
Staff recharged to General Revenue	(38.2)	(35.5)
<b>Contributory Funds Allocation</b>	<b>48.6</b>	<b>80.9</b>

The Committee’s total full-time equivalent (“FTE”) staff numbers in 2019 was 130.4 (2018: 162.8) with 43.6 FTEs (2018: 46.4) paid directly from General Revenue and therefore excluded from the above analysis. The decrease in FTE is associated with the former Contributions team.

The allocation of administration costs is split proportionately between the Funds, except where specific costs are identified, and is as follows:

- GIF: -2.9% to £4.4m (2018: +2.3% to £4.5m);
- GHSF: -8.4% to £1.5m (2018: +22.8% to £1.6m); and
- LTCIF: +38.0% at £0.4m (2018: -0.1% at £0.3).

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2019

### 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 2019 had a market value of £920.7m (2018: £874.9m).

As the Guernsey Insurance Fund and Guernsey Health Service Fund are currently running operating deficits, £21.5m (2018: £24.0m) 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	2019		2018	
	£'000s	%	£'000s	%
Guernsey Insurance Fund	715,272	77.7%	687,918	78.7%
Guernsey Health Service Fund	115,900	12.6%	110,493	12.6%
Long-term Care Insurance Fund	89,554	9.7%	76,476	8.7%
<b>Total</b>	<b>920,726</b>	<b>100.0%</b>	<b>874,887</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 ("CIF") 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	7.55%	6.30%
3-Year	3.78%	5.60%
5-Year	4.43%	6.61%

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

#### Key Statistics

Contribution Rates – Annual earnings/income limits	2019 £	2018 £	2017 £	2016 £	2015 £
<i>Class 1 Employed</i>					
Upper earnings limit	146,328	142,896	138,684	137,592	135,252
Lower earnings limit	7,332	6,968	6,968	6,916	6,812
<i>Class 2 Self-employed</i>					
Upper earnings limit	146,328	142,896	138,684	137,592	135,252
Lower earnings limit	7,332	7,176	6,968	6,916	6,812
<i>Class 3 Non-employed</i>					
Maximum income	146,328	142,896	138,684	137,592	135,252
Minimum income	18,330	17,940	17,420	17,290	17,030
Allowance	8,285	8,110	7,875	7,336	7,223

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2019

### STATEMENT OF PERFORMANCE (CONTINUED)

#### Key Statistics (Continued)

<b>Contribution Rates – Contributory Funds</b>	<b>2019 %</b>	<b>2018 %</b>	<b>2017 %</b>	<b>2016 %</b>	<b>2015 %</b>
<i>Class 1 Employer</i>					
Guernsey Insurance Fund	5.0	5.0	5.0	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>6.6</b>	<b>6.5</b>	<b>6.5</b>
<i>Employee</i>					
Guernsey Insurance Fund	3.5	3.5	3.5	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	1.8	1.3	1.3
	<b>6.6</b>	<b>6.6</b>	<b>6.6</b>	<b>6.0</b>	<b>6.0</b>
<i>Combined</i>					
Guernsey Insurance Fund	8.5	8.5	8.5	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	1.8	1.3	1.3
	<b>13.2</b>	<b>13.2</b>	<b>13.2</b>	<b>12.5</b>	<b>12.5</b>
<i>Class 2 Self-employed</i>					
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	1.8	1.3	1.3
	<b>11.0</b>	<b>11.0</b>	<b>11.0</b>	<b>10.5</b>	<b>10.5</b>
<i>Class 3 Non-employed (under 65)</i>					
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	1.9	1.4	1.4
	<b>10.4</b>	<b>10.4</b>	<b>10.4</b>	<b>9.9</b>	<b>9.9</b>
<i>Non-employed (over 65)</i>					
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	2.1	1.6	1.6
	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>	<b>2.9</b>	<b>2.9</b>

<b>Number of contributors (as at week 48*)</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Employers</b>	<b>2,306</b>	<b>2,325</b>	<b>2,333</b>	<b>2,386</b>	<b>2,431</b>
Employed	29,281	29,106	28,909	28,769	28,713
Self-employed	3,014	3,044	3,108	3,124	3,195
Non-employed	6,010	5,946	5,783	5,691	5,690
<b>Total Contributors</b>	<b>38,305</b>	<b>38,096</b>	<b>37,800</b>	<b>37,584</b>	<b>37,598</b>

\* Reporting for quarter 4 contribution statistics is system processed as at week 48

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2019

### STATEMENT OF PERFORMANCE (CONTINUED)

#### Key Statistics (Continued)

Contributory Funds - General Revenue Grants - % of contributions	2019 %	2018 %	2017 %	2016 %	2015 %
Guernsey Insurance Fund	14.7%	14.7%	14.7%	15.0%	15.0%
Guernsey Health Service Fund*	0%	0%	0%	12.0%	12.0%
	£m	£m	£m	£m	£m
Guernsey Insurance Fund	16.7	16.1	15.7	15.3	15.0
Guernsey Health Service Fund	-	-	-	4.7	4.6
<b>Total</b>	<b>16.7</b>	<b>16.1</b>	<b>15.7</b>	<b>20.0</b>	<b>19.6</b>

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

GIF: No. of claimants at the year-end	2019	2018	2017	2016	2015
Pension	18,508	18,229	17,964	17,653	17,381
Incapacity Benefit	872	865	856	851	856
Sickness Benefit	493	424	400	388	418
Bereavement Benefits	157	159	200	208	188
Unemployment Benefit	150	107	153	183	213
Industrial Disablement Benefit	163	162	165	170	185
Industrial Injury Benefit	21	22	12	11	13
<b>Total*</b>	<b>20,364</b>	<b>19,968</b>	<b>19,750</b>	<b>19,464</b>	<b>19,254</b>

GIF: No. of approved claims during the year	2019	2018	2017	2016	2015
Sickness Benefit	10,569	10,866	9,748	10,358	10,177
Pension	940	999	1,056	1,006	956
Unemployment Benefit	642	627	790	971	1,016
Industrial Medical Benefit	979	909	795	762	900
Travelling Allowance Grant	945	953	923	875	1,014
Death Grant	620	619	681	645	570
Industrial Injury Benefit	555	487	342	455	499
Bereavement Benefits	360	338	345	347	281
Incapacity Benefit	309	394	333	314	333
Industrial Disablement Benefit	7	11	5	6	7
<b>Total*</b>	<b>15,926</b>	<b>16,125</b>	<b>14,901</b>	<b>15,678</b>	<b>15,646</b>

\* Following the introduction of improved parental benefits in 2017, a separate analysis of maternity allowance and maternity grant is unavailable, and has therefore have been excluded from the total.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2019

### STATEMENT OF PERFORMANCE (CONTINUED)

#### Key Statistics (continued)

<b>GHSF: Drugs &amp; medicines</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Ordinary prescriptions	529,897	530,091	536,170	552,606	562,306
% change	-0.0%	-1.1%	-3.0%	-1.7%	-1.6%
Exempt prescriptions	1,002,672	993,828	974,923	974,106	969,296
% change	+0.9%	+1.9%	+0.1%	+0.5%	+1.2%
<b>Total prescriptions</b>	<b>1,532,569</b>	<b>1,523,919</b>	<b>1,511,093</b>	<b>1,526,712</b>	<b>1,531,602</b>
% change	+0.6%	+0.8%	-1.0%	-0.3%	+0.2%
Average basic cost	£9.55	£9.31	£8.93	£8.99	£8.63
% change	+2.6%	+4.3%	-0.7%	+4.2%	+4.1%
Ordinary prescriptions (% of total)	34.6%	34.8%	35.5%	36.2%	36.7%
Exempt prescriptions (% of total)	65.4%	65.2%	64.5%	63.8%	63.3%

<b>GHSF: Consultation grants</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Doctors	228,529	242,960	236,477	241,749	243,500
% change	-5.9%	+2.7%	-2.2%	-0.7%	-4.4%
Nurses	77,251	78,917	77,401	77,360	78,833
% change	-2.1%	+2.0%	+0.1%	-1.9%	-3.3%
<b>Total</b>	<b>305,780</b>	<b>321,877</b>	<b>313,878</b>	<b>319,109</b>	<b>322,333</b>
% change	-5.0%	+2.5%	-1.6%	-1.0%	-4.1%

<b>LTCIF: Number of claimants at year-end</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Residential & EMI grant-permanent	385	392	404	360	349
Nursing grant-permanent	209	205	202	227	227
<b>TOTAL</b>	<b>594</b>	<b>597</b>	<b>606</b>	<b>587</b>	<b>576</b>



## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2019

### STATEMENT OF PERFORMANCE (CONTINUED)

<b>GIF: 5-Year Financial Performance</b>	<b>2019 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>	<b>2016 £m</b>	<b>2015 £m</b>
Income	130.6	125.9	122.3	117.3	115.1
Expenditure	(155.1)	(149.5)	(141.7)	(139.4)	(134.5)
Operating deficit	(24.5)	(23.6)	(19.5)	(22.1)	(19.4)
Investing activities	52.8	(33.1)	57.6	76.5	(5.9)
<b>Net surplus/(deficit) during the year</b>	<b>28.3</b>	<b>(56.8)</b>	<b>38.0</b>	<b>54.4</b>	<b>(25.3)</b>
Net assets of the Fund at 1 January	712.5	769.3	731.2	676.8	702.1
<b>Net assets of the Fund at 31 December</b>	<b>740.8</b>	<b>712.5</b>	<b>769.3</b>	<b>731.2</b>	<b>676.8</b>
Expenditure cover in number of years	4.8	4.8	5.4	5.2	5.0

<b>GHSF: 5-Year Financial Performance</b>	<b>2019 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>	<b>2016 £m</b>	<b>2015 £m</b>
Income	42.1	41.0	39.5	43.6	42.7
Expenditure	(45.0)	(43.8)	(42.5)	(42.3)	(41.3)
Operating (Deficit)/Surplus	(2.9)	(2.8)	(3.0)	1.3	1.4
Investing activities	8.5	(5.3)	9.1	12.0	(0.9)
<b>Net (deficit)/surplus during the year</b>	<b>5.6</b>	<b>(8.1)</b>	<b>6.1</b>	<b>13.3</b>	<b>0.5</b>
Net assets at 1 January	<b>114.4</b>	<b>122.5</b>	116.4	103.1	102.6
<b>Net assets at 31 December</b>	<b>120.0</b>	<b>114.4</b>	<b>122.5</b>	<b>116.4</b>	<b>103.1</b>
Expenditure cover in number of years	2.7	2.6	2.9	2.8	2.5

<b>LTCIF: 5-Year Financial Performance</b>	<b>2019 £m</b>	<b>2018 £m</b>	<b>2017 £m</b>	<b>2016 £m</b>	<b>2015 £m</b>
Income	28.2	28.0	26.6	19.4	18.9
Expenditure	(20.8)	(19.9)	(19.7)	(18.7)	(18.2)
Operating Surplus	7.4	8.1	6.9	0.7	0.7
Investing activities	6.1	(3.9)	5.2	6.4	(0.5)
<b>Net surplus during the year</b>	<b>13.5</b>	<b>4.2</b>	<b>12.1</b>	<b>7.1</b>	<b>0.2</b>
Net assets at 1 January	79.2	75.0	62.9	55.8	55.6
<b>Net assets at 31 December</b>	<b>92.7</b>	<b>79.2</b>	<b>75.0</b>	<b>62.9</b>	<b>55.8</b>
Expenditure cover in number of years	4.5	4.0	3.8	3.4	3.1

**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;

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security  
*For the year ended 31 December 2019*

- 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 2019 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 2019 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.

**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**

**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 Funds; 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.

**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.

**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**

**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 Funds 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

**Date**

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2019

### AGGREGATED FUND ACCOUNT

	Note	2019 £'000s	2018 £'000s
<b>Income</b>			
Contributions	1(b),2	184,213	178,826
States grant	1(b)	16,737	16,135
		<b>200,950</b>	<b>194,961</b>
<b>Expenditure</b>			
Benefits payable	1(d),3,4,5,6	214,663	206,738
Administration	7	6,242	6,463
		<b>220,905</b>	<b>213,201</b>
Operating deficit before depreciation charge		(19,955)	(18,240)
Depreciation charge	9	(78)	(78)
<b>Operating deficit</b>		<b>(20,033)</b>	<b>(18,318)</b>
Investment returns	1(h),8	67,427	(42,330)
<b>Net surplus/(deficit)</b>		<b>47,394</b>	<b>(60,648)</b>
Net assets at 1 January		906,171	966,819
<b>Net assets at 31 December</b>		<b>953,565</b>	<b>906,171</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 Aggregated 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 2019

### AGGREGATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.19 £'000s	31.12.18 £'000s
<b>Non-current assets</b>			
Tangible assets	9	5,345	3,459
Financial Instruments	10	920,726	874,887
Debtors due after one year	12	58	114
		<b>926,129</b>	<b>878,460</b>
<b>Current assets</b>			
Debtors due within one year	11	36,002	33,574
Cash and cash equivalents		354	349
		<b>36,356</b>	<b>33,923</b>
<b>Current liabilities</b>			
Creditors: Amounts falling due within one year	13	3,094	5,488
Bank overdraft		5,826	724
		<b>8,920</b>	<b>6,212</b>
<b>Net current assets</b>		<b>27,436</b>	<b>27,711</b>
<b>Total net assets</b>		<b>953,565</b>	<b>906,171</b>
<b>Reserves</b>			
Guernsey Insurance Fund		740,783	712,517
Guernsey Health Service Fund		120,034	114,444
Long-term Care Insurance Fund		92,748	79,210
		<b>953,565</b>	<b>906,171</b>

The financial statements were approved by the Committee *for* Employment & Social Security on 12 May 2020.

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 2019

**AGGREGATED STATEMENT OF CASH FLOWS**

Note	2019 £'000s	2018 £'000s
<b>Cash flows from operating activities</b>		
Operating deficit for the year	(20,033)	(18,318)
<i>Adjustments for:</i>		
Tangible asset acquisitions during the year	(1,964)	(612)
Depreciation	78	78
Increase in debtors	(2,372)	(4,506)
(Decrease)/increase in creditors	(2,394)	1,782
Net cash used in operating activities	(26,685)	(21,576)
<b>Cash flows from investing activities</b>		
Increase/(decrease) in cash equivalents in financial instruments	67,427	(42,330)
Net cash from/(used in) investing activities	67,427	(42,330)
<b>Net increase/(decrease) in cash and cash equivalents (including investments)</b>	<b>40,742</b>	<b>(63,906)</b>
Financial instruments, treasury, cash balances and overdraft at 1 January	874,512	938,418
<b>Financial instruments, treasury, cash balances and overdraft at 31 December</b>	<b>915,254</b>	<b>874,512</b>

<b>ANALYSIS AND RECONCILIATION OF NET FUNDS</b>	At 1.1.19 £'000s	Increase/ (decrease) £'000s	At 31.12.19 £'000s
Cash at bank and in hand	349	5	354
Overdraft	(724)	(5,102)	(5,826)
	(375)	(5,097)	(5,472)
Financial instruments	874,887	45,839	920,726
	<b>874,512</b>	<b>40,742</b>	<b>915,254</b>

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.

**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 Insurance 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 continuing to work on providing 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, including the events disclosed in Note 19, which have resulted in decreased contribution income, increased benefit expenditure, and a decrease in the market value of investments since the reporting date. Following review, it is considered that each of the Contributory Funds have adequate financial resources and liquidity to continue 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 2020 in respect of the financial year ended 31 December 2019 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 2019 was 14.7% (2018: 14.7%) in respect of the Guernsey Insurance Fund. The grant to the Guernsey Health Service Fund was again suspended in 2019 (2018: 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.

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

**1. ACCOUNTING POLICIES (continued)**

**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:

Fixed asset categories	Estimated useful life in years	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	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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 1. ACCOUNTING POLICIES (continued)

#### h) Financial instruments (continued)

##### ***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.
- 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.

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

**1. ACCOUNTING POLICIES (continued)**

**h) Financial instruments (continued)**

***Investments***

- 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.

***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)

**Derivatives**

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

**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.

## 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)

#### 1. ACCOUNTING POLICIES (continued)

##### 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 2019 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 2019. 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 2019, and the Committee would be notified of any material changes to net asset values by the Investment Manager and the Custodian.

#### 2. CONTRIBUTIONS

	2019	2018
	£'000s	£'000s
Employer contributions	78,939	76,414
Employee contributions	77,959	75,677
	156,898	152,091
Self-employed contributions	17,004	16,753
Non-employed contributions	9,830	9,873
Employer surcharge and penalty	12	41
Movement in contributions unallocated	469	68
	<b>184,213</b>	<b>178,826</b>
<b>Contribution income allocated to:</b>		
Guernsey Insurance Fund	113,860	109,764
Guernsey Health Service Fund	42,076	41,024
Long-term Care Insurance Fund	28,277	28,038
	<b>184,213</b>	<b>178,826</b>

**SOCIAL SECURITY – CONTRIBUTORY FUNDS**

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****3. BENEFITS PAYABLE**

	<b>Note</b>	<b>2019</b>	<b>2018</b>
		<b>£'000s</b>	<b>£'000s</b>
Guernsey Insurance Fund	<b>4</b>	150,745	144,918
Guernsey Health Service Fund	<b>5</b>	43,516	42,188
Long-term Care Insurance Fund	<b>6</b>	20,402	19,632
		<b>214,663</b>	<b>206,738</b>

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

	<b>Note</b>	<b>2019</b>	<b>2018</b>
		<b>£'000s</b>	<b>£'000s</b>
Pension		128,742	123,455
Incapacity		8,843	8,577
Sickness		4,519	4,134
Bereavement		1,405	1,498
Travelling allowance grant		2,524	2,785
Unemployment		940	898
Parental		2,481	2,268
Industrial disablement		526	528
Industrial injury		254	267
Death grant		350	350
Industrial medical		169	139
		<b>150,532</b>	<b>144,899</b>
Benefit debt written-off		-	10
Doubtful debt provision - movement		(9)	9
	<b>3</b>	<b>150,745</b>	<b>144,918</b>

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

	<b>Note</b>	<b>2019</b>	<b>2018</b>
		<b>£'000s</b>	<b>£'000s</b>
Drugs and medicines	<b>5(a)</b>	17,499	16,813
Specialist Health Insurance Scheme	<b>5(b)</b>	21,432	20,725
Consultation grants	<b>5(c)</b>	3,206	3,389
Visiting medical consultants		896	798
Healthy Minds		409	379
Under 21 Contraception		74	84
	<b>3</b>	<b>43,516</b>	<b>42,188</b>



## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Note	2019 £'000s	2018 £'000s
Drugs and medicines	18,302	17,627
Appliances	1,032	961
Oxygen Service	441	459
	<b>19,775</b>	<b>19,047</b>
Prescription charges receivable	(2,276)	(2,234)
<b>5</b>	<b>17,499</b>	<b>16,813</b>

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

Note	2019 £'000s	2018 £'000s
Specialist medical benefit	18,655	18,135
Physiotherapy benefit	2,485	2,316
Alderney hospital benefit	292	274
<b>5</b>	<b>21,432</b>	<b>20,725</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 to enable the service to be monitored closely, with results published annually.

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

#### 5(c). CONSULTATION GRANTS

Note	2019 £'000s	2018 £'000s
Doctor consultation grants	2,742	2,916
Nurse consultation grants	464	473
<b>5</b>	<b>3,206</b>	<b>3,389</b>

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Note	2019 £'000s	2018 £'000s
<b>Residential home care benefit</b>		
Permanent	6,222	6,460
Permanent with EMI supplement	4,319	4,043
Respite care	103	65
Respite care with EMI supplement	45	36
	<b>10,689</b>	<b>10,604</b>
<b>Nursing home care benefit</b>		
Permanent	9,644	8,985
Respite care	69	43
	<b>9,713</b>	<b>9,028</b>
<b>3</b>	<b>20,402</b>	<b>19,632</b>

#### 7. ADMINISTRATION

	2019 £'000s	2018 £'000s
Salaries and pension costs	4,170	5,395
Other staff costs	6	15
IT and communication	649	634
Consultancy and contracted out work	693	416
Administration	321	283
Premises	236	225
Health & Social Services Committee	366	455
Policy & Resources Committee charges	1,639	700
Supplies and Services	164	194
Audit fee	60	53
	<b>8,304</b>	<b>8,370</b>
Amounts received from General Revenue	(2,062)	(1,907)
	<b>6,242</b>	<b>6,463</b>
<b>Administration expenses allocated to:</b>		
Guernsey Insurance Fund	4,402	4,533
Guernsey Health Service Fund	1,486	1,622
Long-term Care Insurance Fund	425	308
	<b>6,313</b>	<b>6,463</b>

**SOCIAL SECURITY – CONTRIBUTORY FUNDS**

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****8. INVESTMENT RETURNS**

	<b>2019</b>	<b>2018</b>
	<b>£'000s</b>	<b>£'000s</b>
<b>Income</b>		
Interest from fixed interest securities	4,282	2,699
Distributions from property funds	-	137
Interest on short term deposits and bank interest	38	2,075
Venture capital and partnerships	-	1,843
Less: Withholding tax suffered	-	(10)
	<b>4,320</b>	<b>6,744</b>
<b>Expenditure</b>		
Investment managers' fees	515	592
Investment advisor's fees	195	360
Custody fees	41	26
Performance monitoring fees	27	33
Policy & Resources Committee charges	73	59
	<b>851</b>	<b>1,070</b>
<b>Net investment income</b>	<b>3,469</b>	<b>5,674</b>
Realised gain on disposal	10,119	9,225
Movement on unrealised gain	53,839	(57,229)
<b>Total surplus/(deficit) for the year</b>	<b>67,427</b>	<b>(42,330)</b>
<b>Investing activities allocated to:</b>		
Guernsey Insurance Fund	52,840	(33,132)
Guernsey Health Service Fund	8,507	(5,298)
Long-term Care Insurance Fund	6,080	(3,900)
	<b>67,427</b>	<b>(42,330)</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**

	<b>1.1.2019</b>	<b>Additions</b>	<b>31.12.2019</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
<b>Cost</b>			
Freehold land and buildings	4,044	264	4,308
Plant and equipment	1,044	24	1,068
Information technology	10,135	1,676	11,811
	<b>15,223</b>	<b>1,964</b>	<b>17,187</b>
	<b>1.1.2019</b>	<b>Depreciation</b>	<b>31.12.2019</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
<b>Accumulated Depreciation</b>			
Freehold land and buildings	1,454	49	1,503
Plant and equipment	957	25	982
Information technology	9,353	4	9,357
	<b>11,764</b>	<b>78</b>	<b>11,842</b>
<b>Net book value</b>	<b>3,459</b>		<b>5,345</b>

The Committee has reviewed fixed assets for evidence of impairment and no adjustment has been made to the carrying value of tangible fixed assets (2018: £Nil).

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 10. FINANCIAL INSTRUMENTS

<b>Common Investment Fund (CIF) at Fair Value</b>	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>£'000s</b>	<b>£'000s</b>
Equities and derivatives	432,939	396,290
Alternative investments and hedge funds	245,550	249,845
Cash and cash equivalents	103,840	105,109
Fixed income and derivatives	85,165	75,808
Venture Capital & Partnerships	48,484	40,788
Property funds	4,748	7,047
	<b>920,726</b>	<b>874,887</b>
<b>Investments allocated to:</b>		
Guernsey Insurance Fund	715,272	687,918
Guernsey Health Service Fund	115,900	110,493
Long-term Care Insurance Fund	89,554	76,476
	<b>920,726</b>	<b>874,887</b>

<b>CIF movements during the year</b>	<b>2019</b>	<b>2018</b>
	<b>£'000s</b>	<b>£'000s</b>
<b>Market value 1 January</b>	874,887	939,939
Investment income reinvested	3,493	6,952
Realised profit on disposal reinvested	10,119	9,225
Movement on unrealised profit/(loss) on	53,727	(57,229)
	<b>942,226</b>	<b>898,887</b>
Withdrawal of monies invested	(21,500)	(24,000)
<b>Market value 31 December</b>	<b>920,726</b>	<b>874,887</b>

During 2019, the Common Investment Fund was managed by nine (2018: ten) investment managers, namely: BlackRock Investment Management (UK) Limited; 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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### 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:

<b>Fair Value at 31.12.2019</b>	<b>Level 1 £'000s</b>	<b>Level 2 £'000s</b>	<b>Level 3 £'000s</b>	<b>Total £'000</b>
Equities and derivatives	-	426,062	6,877	432,939
Alternative investments and hedge funds	-	232,412	13,138	245,550
Cash and cash equivalents	125,160	(21,320)	-	103,840
Fixed income and derivatives	5,911	78,534	720	85,165
Venture capital and partnerships	-	-	48,484	48,484
Property funds	-	-	4,748	4,748
<b>Common Investment Fund</b>	<b>131,071</b>	<b>715,688</b>	<b>73,967</b>	<b>920,726</b>

  

<b>Fair Value at 31.12.2018</b>	<b>Level 1 £'000s</b>	<b>Level 2 £'000s</b>	<b>Level 3 £'000s</b>	<b>Total £'000</b>
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>

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2019

### 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 (2018: None).

Assets at 31.12.2019	Fair Value through profit or loss	Amortised Cost	Total
	£'000s	£'000s	£'000s
Financial instruments (CIF)	920,726	-	920,726
Tangible fixed assets	-	5,345	5,345
Cash & cash equivalents	-	(5,472)	(5,472)
Trade and other receivables	-	36,060	36,060
Trade and other payables	-	(3,094)	(3,094)
	<b>920,726</b>	<b>32,839</b>	<b>953,565</b>

Assets at 31.12.2018	Fair Value through profit or loss	Amortised Cost	Total
	£'000s	£'000s	£'000s
Financial instruments	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>

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security  
For the year ended 31 December 2019

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 10. FINANCIAL INSTRUMENTS (continued)

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 (see note 9).

#### 11. DEBTORS DUE WITHIN ONE YEAR

	31.12.19 £'000s	31.12.18 £'000s
Contributions receivable	27,180	25,987
States of Guernsey Intercompany & Treasury	5,214	2,900
Benefits and allowances prepaid	3,545	4,245
Administration expenses prepaid	-	224
Trade debtors	63	218
	<b>36,002</b>	<b>33,574</b>

#### 12. DEBTORS DUE AFTER ONE YEAR

	31.12.19 £'000s	31.12.18 £'000s
Benefit debt	132	201
Provision for doubtful debts	(74)	(87)
	<b>58</b>	<b>114</b>

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

	31.12.19 £'000s	31.12.18 £'000s
Benefits and allowance payable	2,239	3,883
Other creditors and accruals	580	999
Trade creditors	275	606
	<b>3,094</b>	<b>5,488</b>



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

**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 £92,236 (2018: £90,074)) 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.

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 2019.

**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 (2018: Nil). Of the Committee's annual income and expenditure, less than 20% of their respective value for both 2019 and 2018 is due to transactions with other States entities, except as disclosed in notes 1, 2, 5, 7, 11 and 13. Balances with the States of Guernsey at the year-end amounted to £5.2m (2018: £2.9m).

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

**15. RELATED PARTY TRANSACTIONS (CONTINUED)**

**Key management personnel compensation disclosure**

For the year, total staffing costs associated with the Committee's key management was £1.08m (2018: £1.19m), comprising 11.5 full-time equivalent staff (2018: 13.9 FTE). The decrease in the number of key management is due to vacancies which occurred during the year, and the changes to the strategic leadership team. Approximately £0.54m of total costs is allocated to the Contributory Funds (2018: £0.58m), 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.

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.

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

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

**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.

<b>Risk</b>	<b>Cause</b>	<b>Indicative magnitude of loss</b>	<b>Time to recover</b>
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.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

##### 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.

##### 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.

	31.12.2019	31.12.2018
	£'000s	£'000s
Fair value at year-end	920,726	874,887
Variance of 5% in fair value	±46,036	±43,744

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 (2018: 3) open option contracts at the year-end. An analysis of the open contracts is as follows:

Contract	Settlement Date	Purchase Price	31.12.19 Fair Value £'000s	31.12.18 Fair value £'000s
MSCI World C @ 1960.000	27/07/2020	16,220	33,640	11,378
MSCI World P @ 2260.000	27/07/2020	(5,304)	(10,931)	(2,743)
MSCI World P @ 1275.000	27/07/2020	(3,044)	(88)	(2,022)
		<b>7,872</b>	<b>22,621</b>	<b>6,613</b>

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

##### (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.

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

There were 5 (2018: 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	31.12.19 Fair value £'000s
Forward FX Purchase	1 month	GBP	108,570	108,570
Forward FX Sale	1 month	AUD	(1,544)	(1,571)
Forward FX Sale	1 month	CAD	(4,957)	(4,990)
Forward FX Sale	1 month	EUR	(12,777)	(12,734)
Forward FX Sale	1 month	USD	(89,292)	(87,625)
			-	1,650

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)

## 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*

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

<b>31.12.19</b>	<b>Monetary Assets</b>	<b>Monetary Liabilities</b>	<b>Non-Monetary Assets</b>	<b>Non-Monetary Liabilities</b>	<b>Forward FX Contracts</b>	<b>Total</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
GBP	124,896	-	708,795	(22,970)	108,570	919,291
AUD	-	-	1,542	-	(1,571)	(29)
CAD	8	-	5,033	-	(4,990)	51
EUR	34	-	6,692	-	(12,734)	(6,008)
USD	222	-	105,844	(11,020)	(87,625)	7,421
<b>Total (CIF)</b>	<b>125,160</b>	<b>-</b>	<b>827,906</b>	<b>(33,990)</b>	<b>1,650</b>	<b>920,726</b>
GBP	354	(5,826)	41,552	(3,241)	-	32,839
<b>Total</b>	<b>125,514</b>	<b>(5,826)</b>	<b>869,458</b>	<b>(37,231)</b>	<b>1,650</b>	<b>953,565</b>

<b>31.12.18</b>	<b>Monetary Assets</b>	<b>Monetary Liabilities</b>	<b>Non-Monetary Assets</b>	<b>Non-Monetary Liabilities</b>	<b>Forward FX Contracts</b>	<b>Total</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
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)
<b>Total (CIF)</b>	<b>105,335</b>	<b>(2)</b>	<b>774,552</b>	<b>(4,765)</b>	<b>(233)</b>	<b>874,887</b>
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>

*Monetary assets and liabilities include financial instruments that are cash and cash equivalent.*

## 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)*

At 31 December 2019, 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 2018. A 5% weakening of GBP against other currencies respectively would have resulted in an equal but opposite effect.

Foreign Currency Exposure – Sensitivity Analysis	31.12.2019	31.12.2018
	£'000s	£'000s
AUD	(1)	(1)
CAD	3	3
EUR	(300)	(1)
USD	371	(52)
<b>Total</b>	<b>73</b>	<b>(51)</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 31.12.19	Fixed	Floating	Total
	£'000	£'000	£'000
Cash and cash equivalents	-	103,288	103,288
Equities and derivatives	22,621	-	22,621
Fixed income and derivatives	-	85,165	85,165
<b>Total</b>	<b>22,621</b>	<b>188,453</b>	<b>211,074</b>

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>

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

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

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

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 (2018: 3) 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.



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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:

<b>Liquidity Analysis</b>	<b>Within 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>Over 12 months</b>	<b>31.12.19 Total</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
Financial instruments	126,811	488,606	232,062	73,247	920,726
Tangible assets	-	-	-	5,345	5,345
Cash and cash equivalents	(5,472)	-	-	-	(5,472)
Trade and other receivables	36,002	-	-	58	36,060
Trade and other payables	(3,094)	-	-	-	(3,094)
<b>Total</b>	<b>154,247</b>	<b>488,606</b>	<b>232,062</b>	<b>78,650</b>	<b>953,565</b>
<b>% of Total</b>	<b>16.2%</b>	<b>51.2%</b>	<b>24.3%</b>	<b>8.3%</b>	<b>100.0%</b>

<b>Liquidity Analysis</b>	<b>Within 1 month</b>	<b>1 to 3 months</b>	<b>3 to 12 months</b>	<b>Over 12 months</b>	<b>31.12.18 Total</b>
	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>	<b>£'000s</b>
Financial instruments	6,494	550,981	250,552	66,860	874,887
Tangible assets	-	-	-	3,459	3,459
Treasury Deposit & 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>

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 £131m at the year-end (2018: £105m). 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.

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

**17. CAPITAL MANAGEMENT (CONTINUED)**

**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;
- 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.

## **SOCIAL SECURITY – CONTRIBUTORY FUNDS**

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

#### **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**

The first quarter of 2020 has seen a global response to the coronavirus pandemic, with governments around the world taking stringent measures. This has created uncertainty, and the impact has been overall decrease in the investment markets during this time. The result of this has seen a decrease of 10.4% in the Common Investment Fund as at 31 March 2020, in comparison to the year end.

Measures have been taken by the government in Guernsey to control the spread of this virus. The consequence of this action will result in additional claims within benefits, such as unemployment and sickness, as well as a reduction in contribution and social insurance grant income. This will no doubt have a significant impact on the Contributory Funds in 2020, however it is not yet possible to estimate to what level of this will be, as the lockdown measures are ongoing.

The Committee have reviewed the resources of each of the Contributory Funds, and have assessed the liquidity available in the Common Investment Fund, and have determined that each of the Contributory Funds continues to have sufficient resources for at least the next 12 months to remain a going concern.

## SOCIAL SECURITY – CONTRIBUTORY FUNDS

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### CONSTITUENT CONTRIBUTORY FUND ACCOUNTS

	Note	GIF 2019 £'000s	GHSF 2019 £'000s	LTCIF 2019 £'000s	TOTAL 2019 £'000s	TOTAL 2018 £'000s
<b>Income</b>						
Contributions	1(c),2	113,860	42,076	28,277	184,213	178,826
States grant	1(c)	16,737	-	-	16,737	16,135
		<b>130,597</b>	<b>42,076</b>	<b>28,277</b>	<b>200,950</b>	<b>194,961</b>
<b>Expenditure</b>						
Benefits payable	1(d),3,4,5,6	150,745	43,516	20,402	214,663	206,738
Administration	7	4,331	1,486	425	6,242	6,463
		<b>155,076</b>	<b>45,002</b>	<b>20,827</b>	<b>220,905</b>	<b>213,201</b>
<b>Operating (deficit)/surplus before depreciation charge</b>		<b>(24,479)</b>	<b>(2,926)</b>	<b>7,450</b>	<b>(19,955)</b>	<b>(18,240)</b>
Depreciation	9	(78)	-	-	(78)	(78)
<b>Operating (deficit)/surplus</b>		<b>(24,557)</b>	<b>(2,926)</b>	<b>7,450</b>	<b>(20,033)</b>	<b>(18,318)</b>
Investment	1(h),8	52,840	8,507	6,080	67,427	(42,330)
<b>Net</b>		<b>28,283</b>	<b>5,581</b>	<b>13,530</b>	<b>47,394</b>	<b>(60,648)</b>
Net assets at 1 January		712,516	114,444	79,211	906,171	966,819
<b>Net assets at 31 December</b>		<b>740,799</b>	<b>120,025</b>	<b>92,741</b>	<b>953,565</b>	<b>906,171</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.