



Social Security Department Minister's Report & Financial Statements – 2010

Social Security Department

CENTRE FOR WORK, PENSIONS AND BENEFITS

MINISTER

I. J. GORST

Deputy of St. Clement

ASSISTANT MINISTER

A. E. JEUNE

Deputy of St. Brelade

CHIEF OFFICER

R. W. BELL

Presented to the States by the Minister for Social Security.



Contents

Minister's Report	<i>Page 5</i>
Social Security Fund	<i>Page 15</i>
Social Security (Reserve) Fund	<i>Page 33</i>
Health Insurance Fund	<i>Page 51</i>
Statistical Appendix	<i>Page 69</i>



Minister's Report

Introduction

These Financial Statements report on the Social Security Fund, Social Security (Reserve) Fund and the Health Insurance Fund (collectively "the Funds"). In addition, the Social Security Department has responsibility for the distribution of a range of benefits funded by the States of Jersey tax revenues, these costs are reported separately and included with other States funded bodies in the States of Jersey Financial Report and Accounts. Statistical Appendix 1 on page 70 sets out the detailed income and expenditure of all of the Social Security Department's activities.

A high level summary of each Fund's results for 2010 are shown in the table below:

	<i>Social Security Fund £000</i>	<i>Social Security (Reserve) Fund £000</i>	<i>Health Insurance Fund £000</i>
Income	217,485	80,928	31,369
Expenditure	186,963	41	25,657
Surplus	30,522	80,887	5,712

SOCIAL SECURITY FUND & SOCIAL SECURITY (RESERVE) FUND

The Social Security Fund generated a surplus of £30.5 million for the year (2009: £37.3 million). Considering that Jersey is not immune to the impacts of the global downturn, it is pleasing to note that the Fund's contribution revenue has fallen away only slightly at £150 million. The nature of the Fund means that for the foreseeable future it is going to have continued upward pressure on expenditure. 2010 saw pension and benefit increases of £6.4m, a result of a combination of an increase in the number of pension benefit claimants which is consistent with demographic ageing and the legislatively driven increase in benefits and pension rates.

The Social Security (Reserve) Fund has continued 2009's positive performance by achieving an 11.3% return on opening Net Assets. This has been achieved against the increased volatility in global markets which may be with us for some time to come.

To mitigate against some of these testing investment pressures, the Social Security (Reserve) Fund is now taking advantage of the States of Jersey Common Investment Fund (the "CIF"), an administrative arrangement which gives its participants broader investment opportunities while minimising costs and fees through economies of scale. The Social Security (Reserve) Fund began migrating its investment assets to the CIF in October 2010.

The short time frame that the Social Security (Reserve) Fund's investment assets have been in the CIF has meant there has been little chance for the change to impact returns. I am expecting the benefits to become evident in 2011.

The Department utilises the UK Government Actuary's Department ("GAD") to complete actuarial reviews of the combined Social Security Fund and Social Security (Reserve) Fund. The last review, published in September 2009, reviewing the combined funds at 31 December 2006, concluded that the combined funds were suitably funded in the short term but that over the longer term funds will have to be transferred back from the Social Security (Reserve) Fund to meet anticipated shortfalls between income and expenditure and that contribution levels will have to increase in the future in order to maintain the pension benefit.

Increasing the age at which a claimant becomes eligible for their pension would reduce the expenditure pressure on the Social Security Fund in the long term. I have recently lodged and had agreed by the States a proposition to increase the pension age to 67 by 2032 in 2011 to achieve this long term saving.

GAD have commenced their review of the combined funds as at 31 December 2009 which is expected to be finalised in the course of 2011 and it is expected that the above measure will have had a positive impact on the long term outlook for the fund.

SOCIAL SECURITY FUND PERFORMANCE OVERVIEW

The Social Security scheme is the means by which people insure themselves, through the payment of contributions, for their old age and for periods of ill-health or disability.

The table below is a summary of income and expenditure:

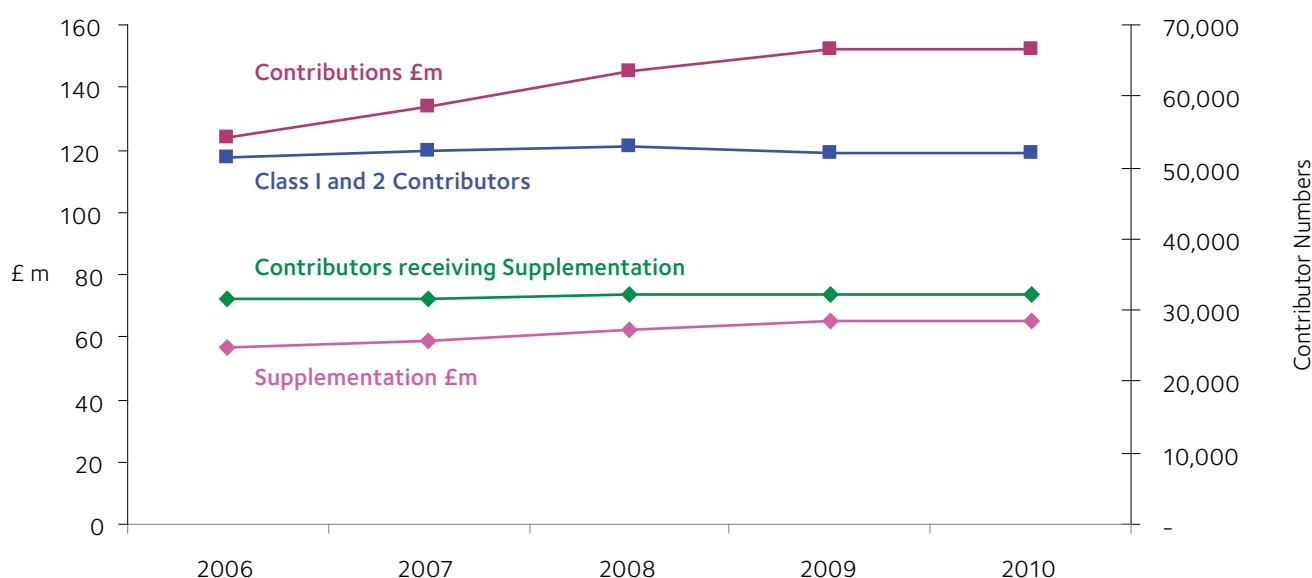
	2010 £000	2009 £000
Income		
Contributions	150,462	151,787
States contribution – Supplementation	66,667	64,995
Other income	356	350
	217,485	217,132
Expenditure		
Pensions	138,055	131,620
Incapacity allowances	37,094	37,478
Grants and allowances	3,264	2,993
Administration expenses	8,550	7,687
	186,963	179,778
Surplus	30,522	37,354

Contributions collected from employees and employers fell by £1.3 million from 2009 ending the year at £150 million (2009: £152 million). The net reduction is driven by a small increase in average earnings (1.1%), plus an earnings linked up-rating in the contribution ceiling (3.0%) offset by a reduction in the number of people working. In 2010 there were approximately 51,000 people working in respect of whom Contributions were paid, 1,000 less than 2009.

States Contribution reflects the funding provided by the States to top-up the contributions of the lower to medium range of wage earners (those earning between £9,240 and £43,752 per annum) to protect their benefit and pension entitlement. The original budget was set prior to the decision to remove the eligibility to Supplementation of those under 18 years old with earnings below the Threshold. This decision saved an estimated £1.6 million. However, 2010 saw a growth in the numbers supplemented when compared with 2009; 33,223 (2009: 32,879), and that together with the ceiling uplift resulted in an increase in spend of £1.7 million.

The graph below shows contributor numbers and supplementation over the last 5 years:

CONTRIBUTIONS AND SUPPLEMENTATION (£ and numbers) 2006 – 2010



Pension costs increased by 5% to £138.1 million (2009: £131.6 million). The increase was driven by two factors – the increase in pensioner numbers from 2009 to 26,387 (2009: 25,467) and the annual earnings linked uprating.

Incapacity Allowances reduced by £0.5 million (1.3%) to £37.0 million (2009: £37.5 million). These consist of short term (STIA) and long term incapacity allowance (LTIA) and are payable when a person is either unable to work through injury, ill-health, disability or has a long term loss of faculty. The number of LTIA claims rose during the year but this was offset by a greater reduction in the annual number of STIA claims with the result that overall number of claims dropped during 2010.

Grants and Allowances include maternity allowance, maternity grant and death grant. These costs totalled £3.3 million for the year (2009: £3.0 million) and accounted for 1.8% of benefit expenditure in 2010. The increase in 2010 was a result of the annual benefit uprating and the rise in the number of annual claims for maternity allowance.

SOCIAL SECURITY (RESERVE) FUND PERFORMANCE OVERVIEW

The Social Security (Reserve) Fund is the mechanism by which contribution rate and ceiling changes are smoothed over time. Without this Fund, pensions and benefits would need to be paid entirely on a pay-as-you-go basis. At present and for the near future, benefits will be funded out of annual revenues. The Fund increases certainty and enables longer term planning by employers, employees and the States of Jersey.

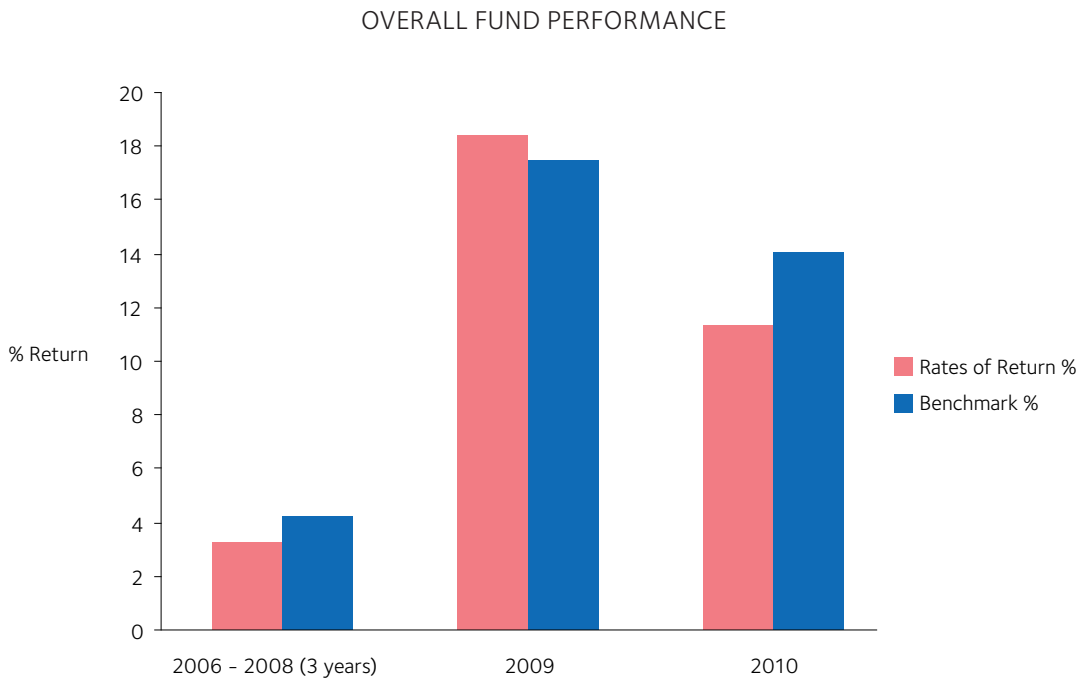
The table below is a summary of the balance sheet as at 31 December:

	2010		2009	
	£000	£000	£000	£000
Fixed assets				
Investments		818,728		711,914
Current assets	19,165		166	
Current Liabilities	(164)		(191)	
Net Current Assets		19,001		(25)
Net Assets		837,729		711,889

The net asset value of the Fund was £838 million at the end of 2010 – an increase of £126 million on 2009. The Accounting Officer of the Fund is the Treasurer of the States and the Minister of Treasury and Resources is responsible for Investment Strategy in consultation with the Minister for Social Security. The Fund is performance managed by officers of the Treasury and Resources Department through the Minister’s Treasury Sub-Committee. Investment advice is received from Hewitt Associates Limited.

The Social Security (Reserve) Fund is a long term investor that does not currently require its assets to be readily available. Liquidity is not therefore a key component of the investment strategy except that the holding of liquid assets enables portfolio changes to be made easily.

The Fund joined the States of Jersey Common Investment Fund (the “CIF”) on 1 October 2010. The CIF, which came in force on the 10 May 2010, allows the pooling of States Funds for investment purposes. The graph below shows the performance achieved against the benchmark:



The overall investment performance over three years is an increase of 3.22% compared with a benchmark increase of 4.18%. The performance against the benchmark over 2010 was an increase of 11.35% compared with a benchmark increase of 14.02%.

HEALTH INSURANCE FUND

The Health Insurance Fund generated a surplus of £5.7 million for the year (2009: £5.4 million). Contribution income has fallen slightly in a similar fashion as noted with the Social Security Fund, but income and gains from investments have more than compensated.

The expenditure of the Fund can be somewhat volatile as there are a number of drivers which may not remain consistent from year-to-year. There has, however been a continued increase in costs, some of which have been initiated by the Department such as increasing the GP subsidy per visit from £15 to £19 reflecting the GMC requirements for GP's to revalidate and in anticipation of moving to the delivery of quality standards in primary care.

The Health Insurance Fund until 2010 had employed a very low risk investment strategy by investing any funds in cash based deposits. This strategy was successful at providing a healthy return when interest rates were high but the extremely low interest rates experienced since the banking crisis and recession have resulted in the Fund's income being drastically reduced. Consequently the Fund has migrated its investment assets into the CIF from 1 July 2010 with the objective of improving investment returns. The Minister for Treasury and Resources is responsible for the Investment Strategy with investment advice provided by Hewitt Associates Limited.

GAD are finalising their report on the Health Insurance Fund as at 31 December 2007. The report is important in determining the adequacy in future years of legislated contribution rates and the need to accommodate the recent proposition to transfer £6.1 million to the Health & Social Services Department in 2011 and a similar amount in 2012.

The outcome of the Health & Social Services healthcare review currently being undertaken may have significant implications for the future structure and application of the fund.

HEALTH INSURANCE FUND PERFORMANCE OVERVIEW

The Health Insurance Fund levies contributions on earnings to subsidise GP visits and prescriptions for island residents.

The table below is a summary of income and expenditure:

	2010 £000	2009 £000
Income		
Contributions	28,660	28,912
Net Gains on investments	2,323	–
Investment income	386	379
	31,369	29,291
Expenditure		
Medical benefit	7,102	5,785
Pharmaceutical benefit	16,703	16,485
Gluten free vouchers	180	154
Administration expenses	1,672	1,489
	25,657	23,913
Surplus	5,712	5,378

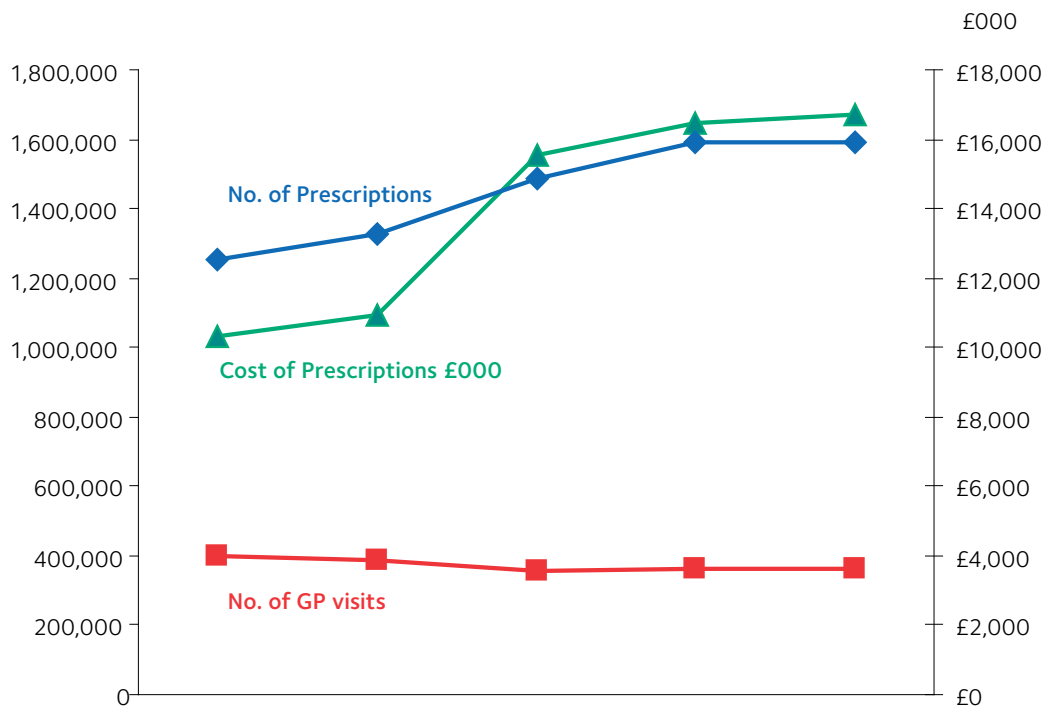
Contributions collected from employees and employers fell by £0.2 million to £28.7 million, a reduction of 0.9% against the 2009 figure of £28.9 million. The net reduction is driven by a small increase in average earnings (1.1%) offset by an earnings initial uprating in the ceiling (3.0%) and a reduction in the number of people working.

During 2010, the number of subsidised visits to General Practitioners was in excess of 344,000; this was a reduction on 2009 of nearly 23,000. However, medical benefit rose to £7.1 million, £1.3 million more than 2009. This increase was primarily from two sources; the costs of pathology tests introduced from 1 January 2010 and the increase in the rate of subsidy paid to GP's on the island from £15 to £19 per visit from mid-May 2010 in order to achieve revalidation and meet GMC quality standards.

The number of prescriptions rose by 3.8% during the year from 1,590,227 in 2009 to 1,651,335 in 2010, however, the total cost only rose by 1.2% at a cost of £16.7 million (2009: £16.5 million). This is made up of two components: being the cost of drugs supplied of £11.4 million and the pharmaceutical dispensing fee of £5.1 million. A review of dispensing costs is currently underway and the Department continues to work with General Practitioners on prescribing protocols and the selection of cost effective products.

The graph below shows the number and cost of prescriptions and number of GP visits over the last five years:

NUMBER AND COST OF PRESCRIPTIONS AND NUMBER OF GP VISITS



The Net Assets of the Health Insurance Fund reached £83.2 million at the end of 2010 (2009: £77.5 million). The Fund joined the CIF in July 2010 and continues to perform well, however this should not be cause for complacency but will assist in providing against the financial impact of developments in technology, medicine and the ageing demography.

The UK Government Actuary's Department (GAD) last carried out their review of the Fund as at 31 December 2002 and reported that it had grown strongly over the previous 5 years. The next report which is for the period ending 31 December 2007, has been completed and is currently being finalised.

LONG TERM CARE FUNDING

The draft Long-term Care (Jersey) Law was lodged on 7 June 2011 and is to be debated in the States session commencing 18 July 2011. It establishes the legal framework for a new long-term care benefit and follows extensive public consultation in 2010 through Green and White Papers. Subject to States approval, the intention is that the benefit will be introduced in 2013

TEMPORARY INSOLVENCY SCHEME

The Temporary Insolvency Scheme, set up during 2009, was followed by a White Paper published later that year setting out proposals for a permanent scheme. The States has approved draft legislation that will introduce a new Insolvency benefit via the Social Security (Jersey) Law, 1974 that includes components for unpaid wages, holiday pay, statutory notice pay and statutory redundancy pay.

EMPLOYMENT LAW AND SERVICES

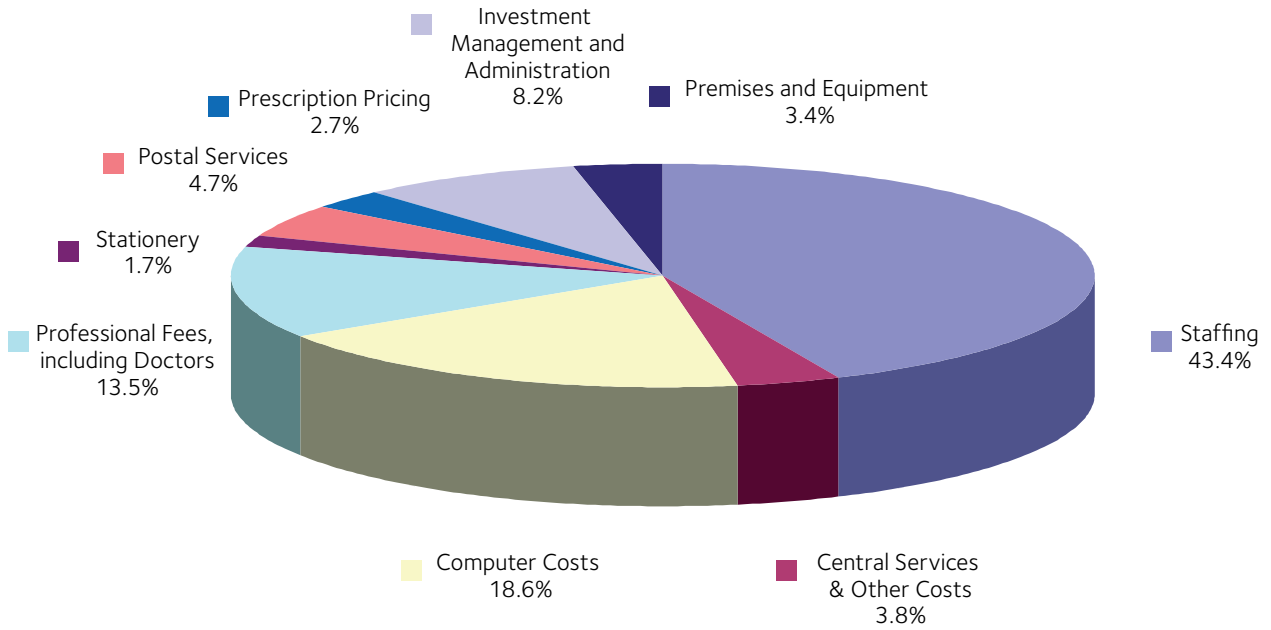
Employment Services continue to support the unemployed workers through the recession. Working closely with Economic Development and Education, Sport & Culture, the Department has improved the information and analysis available in respect of individuals actively seeking work and enhanced its services to increase the level of support available to jobseekers. The enhanced service provides jobseekers with their own personal adviser, who meets them regularly and supports them in finding a job. This includes intensive job search assistance, CV support and interview preparation. In October 2010 an act was lodged to introduce protection for employees who are made redundant from 1 January 2011, qualifying employees now have a statutory right to redundancy pay.

ADMINISTRATION

The Social Security Department administers the Social Security Fund and the Health Insurance Fund. The Social Security (Reserve) Fund is administered by the Treasury and Resources Department. Expenditure on collection of the income of administering benefits from these funds amounted to £8.4 million (2009: £7.3 million). This is equivalent to 2.2% (2009: 1.9%) of the value of contributions collected and benefits administered.

The pie chart below shows the categories of expenditure within the total administration cost of £8.4 million:

ADMINISTRATION COSTS £8.4 MILLION – EXPENDITURE ANALYSIS



Statement Of The Responsibilities Of The Minister for Social Security Of The States Of Jersey In Respect Of The Financial Statements

The Social Security (Jersey) Law, 1974, requires that financial statements of the Social Security Fund and Social Security (Reserve) Fund shall be prepared in such form, manner and at such times as the Minister for Social Security may determine. The Minister is responsible for preparing the financial statements.

In preparing the financial statements the Minister is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate .

The Minister is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Funds.

The Minister is responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ANNUAL REPORT

The Annual Report is available as a publication and on a website maintained by the States of Jersey. The maintenance and integrity of the website is the responsibility of the States of Jersey. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the Annual Report since they were initially presented on the website. Visitors to the website need to be aware that legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in their own jurisdiction.

Independent Auditor's Report To The Minister For Social Security

I have audited the financial statements of the Social Security Fund and the Social Security (Reserve) Fund ("the Funds") for the year ended 31 December 2010 in accordance with the Social Security (Jersey) Law 1974. The financial statements comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF THE MINISTER AND THE COMPTROLLER AND AUDITOR GENERAL OF THE STATES

As explained more fully in the Statement of the Responsibilities of the Minister for Social Security of the States of Jersey in respect of the Financial Statements, the Minister is responsible for the preparation of the financial statements in accordance with the Social Security (Jersey) Law 1974.

My responsibility is to ensure that the financial statements are audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require that I comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Minister for Social Security of the States of Jersey in accordance with the Social Security (Jersey) Law 1974 and for no other purpose. I do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by my prior consent in writing.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Funds' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Minister; and the overall presentation of the financial statements.

OPINION ON THE FINANCIAL STATEMENTS

In my opinion, the Financial Statements:

- give a true and fair view, in accordance with the Social Security (Jersey) Law 1974, of the state of the Funds' affairs as at 31 December 2010 and of the income and expenditure and cash flows for the year then ended; and
- have been prepared in accordance with the requirements of the Social Security (Jersey) Law 1974.

OPINION ON OTHER MATTER

In my opinion, the information given in the Minister's Report and the Statistical Appendix is consistent with the Accounts.

MATTERS ON WHICH I AM REQUIRED TO REPORT BY EXCEPTION

I have nothing to report in respect of the following matters where the Social Security (Jersey) Law 1974 requires me to report to you if, in my opinion:

- Proper accounting records have not been kept by the Funds; or
- The financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations required for my audit; or
- Information specified by the Social Security (Jersey) Law 1974 has not been disclosed.



C Swinson OBE
Comptroller and Auditor General
Morier House, Halkett Place, St Helier, JE1 1DD
26 July 2011

Social Security Fund

Income and expenditure account *Page 17*

Statement of Total Recognised Gains and Losses *Page 18*

Balance Sheet *Page 19*

Cash Flow Statement *Page 20*

Notes to the Financial Statements *Page 21*

Income and expenditure account for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Income	1		
Contributions		150,462	151,787
States contribution		66,667	64,995
Bank interest		188	158
Other income		168	192
		217,485	217,132
Expenditure	1		
Benefits			
- Pensions			
- Pensions and survivors' benefits		138,055	131,620
- Short term incapacity			
- Short term incapacity allowance		12,736	12,553
- Long term incapacity			
- Long term incapacity allowance		11,901	11,107
- Invalidity benefit		12,457	13,818
		24,358	24,925
		175,149	169,098
- Grants and allowances			
- Maternity allowance		2,197	1,997
- Maternity grant		556	519
- Death grant		511	477
		3,264	2,993
		178,413	172,091
Administration expenses			
- Staff costs	4	3,007	2,572
- Depreciation	6	1,906	1,906
- Other administrative expenses		2,992	2,672
- Net admin costs of the Social Security (Reserve) Fund	1	645	537
		8,550	7,687
		186,963	179,778
Surplus of income over expenditure for the year	5	30,522	37,354

Continuing Operations

All of the fund's income and expenditure is derived from continuing activities.

The notes on pages 21 to 31 form part of these accounts.

Statement of Total Recognised Gains and Losses for the year ended 31 December 2010

	2010 £000	2009 £000
Surplus for the financial year	30,522	37,354
Transferred to Social Security (Reserve) Fund	(45,598)	(38,585)
Total recognised (losses)	(15,076)	(1,231)

The notes on pages 21 to 31 form part of these accounts.

Balance Sheet as at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed Assets			
Tangible fixed assets	6	6,803	8,477
Current Assets			
Debtors	7	52,155	44,231
Cash at Bank and in hand		8,624	21,576
		60,779	65,807
Creditors (amounts falling due within one year)	8	12,080	4,351
		12,080	4,351
Net Current Assets		48,699	61,456
Net Assets		55,502	69,933
Funds Employed			
Revaluation Reserves	9	719	719
Revenue Reserves	10	54,783	69,214
		55,502	69,933

Signed:



Date: 25 July 2011

(Chief Officer – Social Security Department)

Signed:



Date: 25 July 2011

(Minister for Social Security)

The notes on pages 21 to 31 form part of these accounts.

Cash flow statement for the year ended 31 December 2010

	Notes	2010	2009
		£000	£000
Operating Activities			
Net cash inflow from operating activities	12	31,614	36,418
Returns on Investments and Servicing of Finance			
Bank interest received		189	168
Rent received		163	170
Net Cash inflow from Returns on Investments & Servicing of Finance		352	338
Capital Expenditure and Financial Investments			
Payments to acquire tangible fixed assets		(232)	(64)
Transfers to Social Security (Reserve) Fund		(45,598)	(38,585)
Net cash outflow from Capital expenditure and Financial Investments		(45,830)	(38,649)
Management of Liquid Resources			
Decrease in money held on deposit	13	12,709	1,300
Decrease in cash in year		(1,155)	(593)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
		2010	2009
		£000	£000
Decrease in cash in the year		(1,155)	(593)
Net cash outflow from management of liquid resources		(12,709)	(1,300)
Change in Net Funds		(13,864)	(1,893)
Net funds at 1 January		19,849	21,742
Net funds at 31 December	13	5,985	19,849

The notes on pages 21 to 31 form part of these accounts.

Notes to the Financial Statements for the year ended 31 December 2010

1. Accounting Policies

1.1. Basis of Preparation

The financial statements are prepared on the historical cost convention, as modified by the revaluation of certain tangible fixed assets, in accordance with UK GAAP, so far as it is applicable to these financial statements. The Minister considers that the formats adopted within these financial statements are the most appropriate to the circumstances of the Social Security Fund (the "Fund") and in accordance with the Social Security (Jersey) Law 1974.

The preparation of financial statements in conformity with UK GAAP requires the use of certain critical accounting estimates. It also requires the Minister to exercise his judgement in the process of applying the Fund's accounting policies.

A summary of the more important accounting policies are set out below together with an explanation of any changes which have been made to previous policies on adoption of new accounting standards.

The Department has considered the disclosure requirements under UK GAAP and has adopted FRS26, 'Financial Instruments: Recognition and Measurement' and FRS29, 'Financial Instruments Disclosure'. FRS26 requires the investments to be carried using bid price. FRS29 requires disclosure as to the nature and risks arising from financial instruments to which the Fund is exposed and how these are managed.

1.2. Foreign Currency

(a) Functional and Presentation Currency

The performance of the Fund is measured and reported to the Minister in pound sterling. The Minister considers pound sterling as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in pound sterling, which is the Fund's functional and presentation currency.

(b) Transaction and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income and expenditure accounts.

1.3. Income

Income is accounted for on an accruals basis and includes the following categories:

(a) Contributions

Contributions represent payments made by employers, employees and the self employed.

Social Security contributions are set at the rate of 10.5% of earnings (Employees, 5.2%; Employers, 5.3%). The financial statements include an estimation in respect of the contributions from insured persons, employers and the States of Jersey for the year ended 31 December 2010.

(b) States' Contribution

States' contribution is the sum paid by the States of Jersey to supplement the contributions of individuals with monthly earnings between the lower earnings threshold (2010: £770 per month) and the upper earnings limit (2010: £3,646 per month), to ensure that all individuals contributions are made at the standard contribution level.

(c) Bank Interest Received

Interest income is recognised on an accrual basis, by reference to the principal outstanding and the interest rate.

(d) Other Income

Other income includes rental income which is received from sub-letting office space within the building.

1.4. Benefits and administrative expenses

BENEFITS

Benefits are paid to claimants who qualify for a benefit within the Social Security (Jersey) Law 1974 and meet the required conditions. Benefits are recognised over the period when they are due and consist of the following:

(a) Pensions

Pensions and survivors' benefits are paid to those claimants and their surviving spouse who are entitled to receive a State pension based on the contributions made during the claimant's working life.

(b) Short Term Incapacity Allowance

Short Term Incapacity Allowance is a daily benefit which is payable to claimants in possession of a medical certificate who are unfit for work due to illness or injury and who meet certain contribution conditions and is payable for a minimum of two days and a maximum of 364 days. After this period claimants, subject to certain conditions, may claim Long Term Incapacity Allowance.

(c) Long Term Incapacity Allowance

Long Term Incapacity Allowance is a weekly benefit, payable as a compensation for a loss of faculty. As with Short Term Incapacity Allowance certain contribution conditions must be met before payment is awarded.

(d) Grants and Allowances

These include payments for Maternity Grant and Maternity Allowance as well as grants paid on the death of a person who has contributed to the Social Security Scheme.

ADMINISTRATIVE EXPENSES

Administrative expenses are accounted for on an accruals basis, with the exception of bad debts which are accounted for as set out in paragraph 1.8, and consist of the following:

(a) Staff Costs

Staff who work on the Fund are employed by the States Employment Board. Their costs are reflected in the States accounts gross of salaries, wages and pension, with a charge made to the Funds for work done. The staff costs charged to the Fund are shown separately under administrative expenses.

(b) Other Administrative Expenses

Other administrative expenses include service costs, operating costs and bad debts.

1.5. Tangible Fixed Assets

Tangible assets are capitalised if they are capable of being used for a period which exceeds one year and they:

- individually have a cost of at least £10,000, or
- form part of a project with an overall final cost of at least £10,000.

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation has been provided on all tangible fixed assets, other than freehold land, so as to write off the cost of these assets less their estimated residual values, on a straight line basis over their expected useful economic lives. The principal useful lives used for this purpose are:

Buildings	50 years
Building Improvements	5 to 20 years
Fixtures, Fittings & Equipment	5 years
Computer Development	8 years
Computer Network	3 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

1.6. Cash at Bank and in Hand

Cash at bank and in hand includes cash, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

1.7. Debtors

Debtors are measured at initial recognition at fair value. Contributions outstanding at 31 December 2010 represent accrued contributions for the last quarter, together with billed contributions due from earlier periods. Benefits paid in 2010 but in respect of periods extending into 2011 are treated as prepayments.

1.8. Bad Debts

Provisions

Instalment arrangements are made with Contributors to reimburse outstanding contributions due from earlier periods. A provision for bad debts is only made when an instalment is not received from a contributor.

Write-offs

Class 1 contributions are written off when the employer cannot contribute on behalf of their employee by virtue of being declared en désastre or bankrupt. Class 2 contributions are written off when the individual has defaulted on an instalment arrangement and died.

1.9. Provision for Liabilities and Charges

Provision is made in the financial statements in respect of obligations arising from past events where the predicted outcome of the event is considered probable and there is a reliable estimate of the amount of the liability.

1.10. Funds Uncleared at Bank

The Fund does not have a facility for a bank overdraft. Funds uncleared at bank represent cheques issued not yet cashed on the benefit payment bank accounts.

1.11. Loans Payable

The Health Insurance Fund does not operate a bank account, consequently all receipts and payments in relation to the Health Insurance Fund are made through nominated Social Security Fund bank accounts and accounted for as a loan.

1.12. Creditors

Creditors are measured at initial recognition at fair value.

1.13. Taxation

The Fund is exempt from Jersey Income Tax by virtue of Article 131 of the Income Tax (Jersey) Law 1961.

2. Financial Assets and Financial Liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised on the Fund's balance sheet when the Fund becomes a party to the contractual provisions of the instrument. The Fund derecognises its financial assets when the contractual rights to the cash flows from the financial asset expire. The Fund derecognises its financial liabilities when the obligation specified in the contract is discharged, cancelled or expires.

(a) Classification

The financial assets are classified as 'loans and receivables'. The financial liabilities are classified as 'Other financial liabilities'.

(b) Debtors

Debtors are measured at initial recognition at fair value.

(c) Cash at Bank

Cash at bank and in hand includes cash, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(d) Creditors

Creditors are measured at initial recognition at fair value.

3. Financial Risk Management

The Fund's activities expose it to liquidity and credit risk. The Social Security Department undertakes regular risk reviews which involve identifying key risks, scoring them and documenting their mitigation.

(a) Market Risk

No investments are held by the Fund. However, short-term bank deposits are held at fixed rates and therefore these are not subject to market price risk. These cash flows are primarily fixed in nature and are received from short-term highly liquid investments that are readily convertible and subject to an insignificant risk of changes in value.

(b) Credit Risk

The Fund's principal financial assets are debtors and bank balances.

The Fund's credit risk is primarily attributable to its debtors. The Fund's objectives for managing the risk are to ensure that the contribution debtors are recovered promptly and that the cash at bank is secure. Where monies are not received within their payment terms they are transferred and followed up by the Department's Contribution and Enforcement team for recovery. In these instances instalment arrangements are made for repayment of monies owed or court action progressed. Contribution debtor credit risk is limited as monies are due from a large number of debtors, none of whom are significant in isolation.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies with a minimum rating of 'A' only accepted for short term deposits and 'AA' for longer term deposits (+3 months).

(c) Liquidity Risk

The Social Security Fund's exposure to liquidity risk is low due to the volume of cash available to meet its short-term obligations. The Fund's objectives for managing this risk are to ensure that there are enough liquid resources to meet short-term liabilities.

Daily cash flow forecasts are undertaken and any liquidity risk identified as part of this process is addressed by managing the amounts placed on short-term deposit with Royal London Asset Management CI Limited (RLAM). The Fund manages its exposure to liquidity risk by monitoring the rolling forecast of the Fund's liquidity reserves on the basis of the expected cash in and out flows.

All liabilities are payable upon demand or in less than one year.

(d) Fair value interest rate Risk

During the year, the Fund received income from its fixed bank deposits. These cash flows were primarily fixed in nature and therefore there was a potential risk of market rate movement during the fixed period. From March 2010, the Department manages its banking arrangements and fund deposits through the States of Jersey Cash Managers 'RLAM'.

4. Staff Costs

Staff costs represent a Departmental charge to the Social Security Fund. During the year ending 31 December 2010, the Fund had no direct employees.

5. Surplus of Income over Expenditure

Surplus of Income is stated after charging/(crediting):

	2010 £000	2009 £000
Auditors' fees	66	60
Depreciation	1,906	1,906
Rental income from third parties	(63)	(70)
Rental income from related parties	(100)	(100)

6. Tangible Fixed Assets

	<i>Land, buildings and improvements £000</i>	<i>Fixtures and fittings £000</i>	<i>Computer development and network £000</i>	Total £000
Cost				
At 1 January 2010	8,952	87	12,736	21,775
Additions	–	–	232	232
At 31 December 2010	8,952	87	12,968	22,007
Accumulated depreciation				
At 1 January 2010	3,750	68	9,480	13,298
Charge for the year	429	4	1,473	1,906
At 31 December 2010	4,179	72	10,953	15,204
Net book value				
At 31 December 2010	4,773	15	2,015	6,803
At 31 December 2009	5,202	19	3,256	8,477

Land and buildings consists of 28 to 32 La Motte Street, known as Philip Le Feuvre House and Huguenot House, St Helier. Title to Philip Le Feuvre House and Huguenot House are registered in the names of the "Attorney General and Greffier of the States on behalf of the Public of the Island".

7. Debtors

	2010 £000	2009 £000
Debtors:		
Contributors – individuals and employers	19,203	14,406
Inter fund balance: States of Jersey	–	628
Goods and Services Tax	46	16
Other debtors	228	317
	19,477	15,367
Prepayments and accrued income:		
Contributors – individuals and employers	23,394	22,109
Benefits paid in advance	9,103	6,620
Jersey Post – funds held for the payment of Pension Order books	181	134
Bank interest and other income	–	1
	52,155	44,231

The Minister considers that the carrying amount of the debtors approximates to their fair value.

As at 31 December, debtors of carrying value £19.5 million (2009: £14.7 million) were past their due date but not impaired. The ageing is shown below:

	2010 £000	2009 £000
Up to 3 months past due	19,351	14,619
3 to 6 months past due	29	20
6 to 12 months past due	44	48
Over 12 months past due	53	52
	19,477	14,739

BAD DEBT PROVISION

Debtors are shown net of a bad debt provision £49,296 (2009: £61,011), as analysed below.

	2010 £000	2009 £000
Up to 3 months past due	–	35
3 to 6 months past due	9	5
6 to 12 months past due	–	5
Over 12 months past due	40	16
	49	61

During the year, bad debts of £16,498 (2009: £10,098) were written off.

8. Creditors

	2010 £000	2009 £000
Funds uncleared at bank and cash floats	2,690	1,750
Inter fund balances		
Health Insurance Fund	4,126	2,089
States Of Jersey	4,376	19
Accrued benefits payable	382	281
Creditors	506	212
	12,080	4,351

The Minister considers that the carrying amount of the creditors approximates to their fair value.

The loan payable to the Health Insurance Fund and the States of Jersey is unsecured, interest free and repayable on demand.

MATURITY OF FINANCIAL LIABILITIES:

The maturity profile of the carrying amount of the Fund's liabilities, as at 31 December was as follows:

	2010 £000	2009 £000
Up to 3 months past due	506	212

9. Revaluation Reserves

This relates to the revaluation of Huguenot House, an investment property, in 2002 by professional valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) appraisal and valuation manual (the 'red book'). During 2006, this property was vacated, allowing the Department to utilise the property for its own operations. The property is no longer an investment property under Statement of Standard Accounting Practice 19 and is recorded as an asset held for use for Departmental operations and depreciated accordingly.

	2010 £000	2009 £000
As at 1 January and 31 December	719	719

10. Revenue Reserves

	2010 £000	2009 £000
As at 1 January	69,214	69,907
Surplus funds transferred to Social Security (Reserve) Fund	(45,598)	(38,585)
Retained surplus for the year	30,522	37,354
Reimbursement of expenses due to Social Security (Reserve) Fund	645	538
As at 31 December	54,783	69,214

11. Related Party Transactions

JERSEY POST INTERNATIONAL LIMITED

The Fund has the following commercial, arm's length relationships with Jersey Post International Limited, which is a strategic investment of the States:

- The States of Jersey hold all the ordinary shares in Jersey Post International Limited which became incorporated on 1 July 2006.
- The Fund pays Jersey Post International Limited for the pension recipients who hold a pension order book or cash open cheque benefit payments. For this service Jersey Post International Limited receives an administration fee as noted in the table below.

From January 2010, the States of Jersey, Treasury and Resources has invoiced for all Jersey Post International Limited charges.

STATES OF JERSEY TREASURY AND RESOURCES AND OTHER STATES DEPARTMENTS

The Fund also undertakes a number of transactions and joint undertakings with States of Jersey Treasury and Resources and other States Departments as noted in the table below.

Payments made during the year to the States of Jersey directly controlled (strategic investments) entities:

	2010 £000	2009 £000
Jersey Post International Limited	47	272
Jersey Telecom Group Limited	6	6
Jersey Electricity Company Limited	67	50
	120	328

The Fund receives income (States' contribution) from the States of Jersey to supplement the contributions of earners who fall below the earnings ceiling but above the lower earnings threshold 2010: £66,667,178 (2009: £64,995,170).

Staff employed by the States of Jersey who administer the Social Security Fund are also involved with the administration of States Funded Benefits and services related to employment. Where this administration is undertaken on premises owned by the Fund, a rental charge for the use of the premises is levied to the States of Jersey which in 2010 amounted to £90,300 (2008: £90,300).

Payments made during the year to the States of Jersey:

	2010 £000	2009 £000
States Contribution – Supplementation	66,667	64,995
Supplies and Services	3,097	2,675
	69,764	67,670

Full details of all States Funded benefits and services administered by the Social Security Department can be found in the States of Jersey "Financial Report and Accounts 2010". Copies of the report will be available from the States Greffe.

RELATED PARTY BALANCES AT THE YEAR END:

	2010 £000	2009 £000
Amounts due to related parties:		
Treasurer of the States	4,376	19
Jersey Post International Limited	56	14
Jersey Telecom Group Limited	4	1
Jersey Electricity Company Limited	12	6
	4,448	40
Amounts due from related parties:		
Treasurer of the States	–	628
Jersey Post International Limited	181	134
	181	762

The Health Insurance Fund does not operate a bank account. Consequently all receipts and payments in relation to the Health Insurance Fund are made through nominated Social Security Fund bank accounts (due to their relationship in respect of social security contributions) and then accounted for as loans.

During the year the Social Security Department made net payments from its bank accounts, of which the Social Security Fund is part, to the Health Insurance Fund, which in 2010 amounted to £4.087m (2009: £2.716m). At the year end the Health Insurance Fund was owed £4.126m (2009: £2.089m).

The Social Security (Reserve) Fund is the investment vehicle by which contribution rate and ceiling changes are smoothed over time. The accounting officer of the Social Security (Reserve) Fund is the Treasurer of the States. Payments made in the year from the Fund were £45.6m (2009: £38.6m); additionally the Social Security (Reserve) Fund appropriated from the Fund £0.645m (2009: £0.538m).

12. Reconciliation of Surplus to Net Cash Flow

	2010 £000	2009 £000
Surplus of income over expenditure for the year	30,522	37,354
Net expenditure appropriated from Social Security (Reserve) Fund	645	537
Depreciation	1,906	1,906
Increase in debtors	(7,896)	(2,330)
Decrease/(increase) in creditors	6,788	(721)
Bank interest	(188)	(158)
Rent	(163)	(170)
	31,614	36,418

13. Analysis of Changes in Net Funds

	<i>At 31 December</i> 2009 £000	<i>Cash Flows</i> £000	<i>At 31 December</i> 2010 £000
Cash at bank	2,076	(242)	1,834
Funds uncleared at bank	(1,727)	(913)	(2,640)
	349	(1,155)	(806)
Liquid resources	19,500	(12,709)	6,791
Net funds	19,849	(13,864)	5,985

14. Ultimate Controlling Party

Under the Social Security (Jersey) Law, 1974 the Minister of Social Security is the ultimate controlling party of the Fund. The Minister of Social Security is a member of the Council of Ministers of the States of Jersey and is responsible for safeguarding the assets of the Fund and for preparing the financial statements.

Social Security (Reserve) Fund

Statement of Total Return *Page 35*

Portfolio Statement *Page 36*

Balance Sheet *Page 37*

Summary of material portfolio changes *Page 38*

Notes to the Financial Statements *Page 40*

Social Security (Reserve) Fund

Statement of Total Return for the year ended 31 December 2010

	Note	2010	2009
		£000	£000
Income			
Net gains on investments during the year	6	80,887	107,294
Investment income	7	39	(11)
Bank interest	7	2	–
		41	(11)
		80,928	107,283
Expenditure			
Supplies and Services	8	686	526
Total return		80,242	106,757
Appropriated from Social Security Fund		645	537
Total return after appropriation from Social Security Fund		80,887	107,294

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
	£000	£000
Net assets at the start of the year	711,889	566,547
Change in net assets before appropriation from Social Security Fund	80,242	106,757
Funds received from the Social Security Fund	12	38,585
Net assets at the end of the year	837,729	711,889

The notes on pages 40 to 49 form an integral part of these financial statements

Portfolio Statement as at 31 December 2010


	<i>Note</i>	<i>Holding Units</i>	Market Value 31 December 10 £000	<i>Percentage of Total Portfolio %</i>
Legal & General				
Unit Trust Bonds				
All stock gilts index		9,000,878	35,641	4.35
			35,641	4.35
Unit Trust Equities				
UK equity index		21,108,452	157,599	19.25
North America equity		2,500,108	19,479	2.38
Europe equity index		8,496,793	68,857	8.41
Money market		28,614,766	39,184	4.79
Liquidity Fund		100,461,478	106,347	12.99
Japan equity index		26,578,356	26,693	3.26
Asia Pacific (ex-Japan) development equity index		1,289,811	13,389	1.64
			431,548	52.72
Liquidity Fund - Cash		59,814,444	63,318	7.73
			494,866	60.45
Common Investment Fund				
UK equities – Majedie		80,004,777	85,636	10.46
Global equities – Longview		93,383,751	101,727	12.42
Global equities – Walter Scott		93,339,083	100,858	12.32
			288,221	35.20
Portfolio of investments	9		818,728	100.00

Comparatives are not disclosed in accordance with the Statement of Recommended Practice – Financial Statements of Authorised Funds.

The notes on pages 40 to 49 form an integral part of these financial statements

Balance Sheet as at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed Assets			
Financial assets at fair value	9	818,728	711,914
Current Assets			
Debtors	10	2	–
Cash at bank and in hand		19,163	166
		19,165	166
Current Liabilities			
Creditors: amounts falling due within one year	11	167	155
Cash Advanced from the States of Jersey Consolidated Fund		(3)	36
		164	191
Net Current Assets / (Liabilities)		19,001	(25)
Net Assets		837,729	711,889
Represented by:			
Revenue Reserves		837,729	711,889

Signed: 
Date: 25 July 2011
(Treasurer of the States)

Signed: 
Date: 25 July 2011
(Minister for Social Security)

The notes on pages 40 to 49 form an integral part of these financial statements

Summary of material portfolio changes for the year ended 31 December 2010

MAJOR PURCHASES

<i>Name</i>	<i>Holding Units</i>	<i>Cost £000</i>
Legal & General		
Legal & General TA Liquidity Fund	20,538,231	21,631
Legal & General TA Liquidity Fund	19,701,861	20,750
Legal & General TA Liquidity Fund	14,190,838	15,000
Legal & General TA Liquidity Fund	9,498,210	10,000
Legal & General TA Liquidity Fund	9,488,566	10,000
Legal & General Europe Equity Index	1,380,180	8,630
Legal & General Europe (Ex-UK) Equity index	784,566	5,546
Legal & General Europe Equity Index	738,334	5,000
Legal & General N America Equity	694,589	4,669
Legal & General TA Liquidity Fund	2,710,572	2,868
Legal & General TA Liquidity Fund	2,482,856	2,625
Legal & General TA Liquidity Fund	2,377,659	2,505
Legal & General Europe Equity Index	364,216	2,295
Legal & General N America Equity	326,679	2,257
Legal & General TA Liquidity Fund	1,784,301	1,883
Legal & General TA Liquidity Fund	1,708,778	1,800
Legal & General TA Liquidity Fund	1,350,195	1,426
Legal & General TA Liquidity Fund	1,303,462	1,373
Legal & General TA Liquidity Fund	1,281,808	1,350
Legal & General TA Liquidity Fund	1,228,084	1,294
		122,902
All other purchases		12,822
		135,724
Common Investment Fund		
UK Equity Pool - Majedie	11,580,236	11,580
UK Equity Pool - Majedie	68,424,541	68,425
Global Equity - Walter Scott	89,550,042	89,550
Global Equity - Walter Scott	3,667,201	3,667
Global Equity - Walter Scott	121,840	124
Global Equity - Longview	3,435,534	3,436
Global Equity - Longview	88,055,199	88,111
Global Equity - Longview	1,893,019	1,893
		266,786
Total purchases for the year		402,510

The notes on pages 40 to 49 form an integral part of these financial statements

MAJOR SALES

<i>Name</i>	<i>Holding Units</i>	<i>Proceeds £000</i>
Legal & General N UK Equity Index	3,119,892	21,631
Legal & General North America Equity (Net US)	2,817,135	20,750
Legal & General TA Liquidity Fund	17,954,678	19,000
Legal & General Europe (Ex-UK) Equity Index	2,150,063	16,642
Legal & General TA Liquidity Fund	8,181,136	8,630
Legal & General TA Liquidity Fund	5,256,960	5,546
Legal & General TA Liquidity Fund	339,757	4,669
Legal & General WR-Money Market Maturity II	2,088,359	2,868
Legal & General WR-Money Market Maturity II	1,909,168	2,625
Legal & General WR-Money Market Maturity II	1,844,655	2,505
Legal & General TA Liquidity Fund	2,175,100	2,295
Legal & General WR-Money Market Maturity II	1,377,787	1,883
Legal & General Asia Pacific ex Japan Dev Equity Index	195,762	1,800
Legal & General WR-Money Market Maturity II	1,040,224	1,427
Legal & General Europe (Ex-UK) Equity Index	171,768	1,373
Legal & General Japan Equity (Net WHT)	1,386,148	1,350
Legal & General WR-Money Market Maturity II	950,714	1,294
Legal & General Japan Equity (Net WHT)	1,278,979	1,250
Legal & General Europe (Ex-UK) Equity Index	122,574	977
Legal & General WR-Money Market Maturity II	717,802	967
		119,482
All other sales		7,569
Total sales for the year		127,051

The notes on pages 40 to 49 form an integral part of these financial statements

Notes to the Financial Statements for the year ended 31 December 2010

1. General Introduction

FUND PURPOSE

The number of recipients of a State pension as a percentage of the working population is expected to increase over time. The purpose of the Social Security (Reserve) Fund (the "Reserve Fund") is to set aside funds for the future provision of pension benefits for those in employment so as to reduce the impact of pensions in future generations, as well as to smooth contributions for social security benefits over time. To achieve these objectives, the Reserve Fund's assets and liabilities comprise financial instruments held in accordance with its investment objectives and policies. These include cash, liquid resources and short term debtors and creditors that arise directly from the investment activities.

STRATEGY

Excess funds held in the Social Security Fund are transferred to the Reserve Fund for investment on a quarterly basis as determined by the Minister.

Long term growth is one of the main aims for the Social Security (Reserve) Fund and therefore any income generated is reinvested back into the Fund. It is expected that there will be no requirement to draw on the assets of the Fund in the near term and during this period there will continue to be net cash inflows to the Fund.

In order to ensure that the Fund can work towards its objective of longer term growth its strategy is to place a high proportion of its assets in return seeking investments.

The longer term strategic aim for the fund is to invest within the parameters indicated below:

<i>Asset Class</i>	<i>Strategic Aim %</i>	<i>Range %</i>
Equities	80	65–90
Property	10	0–15
Bonds / Cash	10	5–35

Investment conditions are not suitable to move to this strategy at the current time, however, as the financial climate changes the composition of the Fund's investments will change to reflect a move towards the strategic aim.

As the Reserve Fund is subject to three yearly actuarial reviews the outcomes may result in a need to redefine the Fund's investment strategy. All strategy revisions are brought to the attention of the States.

The Reserve Fund began investing in the States of Jersey Common Investment Fund (the "CIF") on 1 October 2010. The CIF was established by the Public Finances (Transitional Provisions) (No.2) (Amendment) (Jersey) Regulations 2010 which came in force on the 10 May 2010 and allows the pooling of States' Funds for investment purposes. The CIF is an administrative arrangement and not a separate fund, providing a cost effective way of pooling funds for investment purposes. The aim of the CIF is to provide greater investment opportunities, economies of scale and minimise fees and costs. The Reserve Fund still maintains its own investment strategy and is able to invest in its chosen range of investment categories in line with its strategic aim and ranges.

All participants account for their investment in the CIF as an asset on the basis of units held with any increases in the value of units held in the CIF recognised in the Statement of Total Return.

INVESTMENT STRUCTURE

As a pension fund, the Social Security (Reserve) Fund can enter the insurance products restricted to the pension funds market which are designed to follow general market movements. This enables the Fund to participate in large pools of indexed assets available in the UK, at very low management costs and provides the flexibility to easily change asset allocation by increases or decreases to the indexed holdings in each market.

Those indexed funds are provided by an insurance company using a policy of assurance, but operate in a broadly similar way to a series of unit trusts.

The CIF provides an opportunity for the Social Security (Reserve) Fund to invest around half of its equity assets in the States of Jersey Common Investment Fund equity pools; therefore carrying out investment under active management.

Investments are not made in Jersey except where a Jersey company is part of an established index. This is to ensure that as far as possible, the assets are diversified away from the effects of Jersey's economy.

No investments in property had taken place by the end of 2010.

PERFORMANCE MANAGEMENT

The Accounting Officer of the Reserve Fund is the Treasurer of the States. The Minister for Treasury and Resources oversees the performance of the Reserve Fund, supported by a Committee chaired by the Minister and which is attended by the Minister for Social Security. The Committee meets every three months and Legal and General Investment Management Limited (L&G) (the 'Investment Manager') presents to the Minister half yearly. Investment Strategy is reviewed annually. Hewitt Associates Limited, investment adviser, attend the performance meetings and provide advice where appropriate. The Minister for Treasury and Resource consults with the Minister for Social Security for decisions affecting matters such as changes to investment strategies.

The assets of the Reserve Fund are held with a global custodian, Northern Trust. This results in a complete separation of the custody of the invested assets and the investment management arrangements.

2. Accounting policies

2.1. Basis of Preparation

The accounts are prepared on the historical cost convention, in accordance with UK GAAP and in accordance with the Statement of Recommended Practice – Financial Statements of Authorised Funds issued by the Investment Management Association dated December 2005 (the "SORP"), so far as they are applicable to these accounts. In the absence of any detailed guidance on the required format of accounts we have referred to the UK Government's Financial Reporting Manual for Government entities. The Manual considers the question of accounting for specialised funds and requires that their presentation is agreed on a case by case basis with the relevant authority, which under the Social Security (Jersey) Law 1974 is the Minister for Social Security. The Minister considers that the format contained within these accounts is the most appropriate to the circumstances of the Reserve Fund.

The preparation of accounts in conformity with UK GAAP requires the use of certain critical accounting estimates. It also requires the Minister to exercise his judgement in the process of applying the Reserve Fund's accounting policies.

A summary of the more important policies are set out below together with an explanation of the changes which have been made to previous policies on adoption of new accounting standards.

Certain assets were transferred in specie from Legal & General Assurance (Pensions Management) Limited to units in the CIF. Such transfers are shown in the accounts as a sale of securities and a purchase of units, without the payment of stamp duty or any transaction costs.

2.2. Foreign currency translation

(a) Functional and presentation currency

The primary activity of the Reserve Fund is to invest for the long-term to accumulate funds for the future provision of pension benefits for those currently in employment. The performance of the Reserve Fund is measured and reported to the Minister for Treasury and Resources in sterling. The Minister considers sterling as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in sterling, which is the Reserve Fund's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Total Return. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the income statement within the fair value net gain or loss.

2.3. Income

(a) Investment income

Since both the L&G units and the CIF units are of the accumulation type which do not distribute income, investment income shown consists mainly of income from bank interest and dividends. Income from fixed interest securities and bank interest generated by assets within the L&G or CIF portfolios are accrued to the year end within unit prices of L&G and the CIF. Dividends from other quoted securities are accrued within unit prices when the securities are quoted ex-dividend.

Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income.

(b) Bank Interest Received

Interest income is recognised on an accrual basis, by reference to the principal outstanding and the interest rate.

2.4. Accrued interest

Accrued interest is recognised initially at fair value.

2.5. Investments

The investments of the Reserve Fund are held under a pooled fund policy of L&G and in units in the CIF. The terms of the L&G policy and the CIF allow the units within the portfolio (as set out under note 9) to be realised on any dealing day through transfer of cash to the Reserve Fund or liquidated in whole and the surrender value returned in specie. The Minister has considered the substance of these investments and given the nature of the policy, considers it appropriate that these are recognised as an investment within the financial statements. Sales, purchases and switches in the units of the pooled fund have been disclosed within these accounts.

Sales and Purchases of investments held by L&G are recognised on their trade date, the date on which the Reserve Fund commits to purchase or sell the investment. Purchases are recognised at the market value of the consideration paid. Sales are

recognised on the settlement date and proceeds are calculated using the market value of the investment on that date. The profit or loss of units sold is calculated based on the market value of the consideration on the trade date compared with the average cost of the units, which is calculated by aggregating the historic transactions within the L&G pooled funds or the CIF. Any profit or loss resulting from this transaction is recognised within the Statement of Total Return.

The valuation of the investment units held in the L&G pooled funds is based on the closing bid market prices of the units as confirmed by valuations received from the Investment Manager. The determination of bid prices for the CIF units is made by the States of Jersey, Treasury Department.

The CIF operates only accumulated units, due to limitations on frequency of trading of units by the Custodian. All Pools operating accumulation units reinvest all income receipts, accruals and growth in investments back in the Pool. Similarly, all expense payments, accruals and investment losses are directly paid out of the investment Pool. This results in an overall net increase or decrease in the valuation of the Pool monthly and an increase or decrease in the unit value of the Pool monthly.

Any cash and cash equivalent held balances in Pools, as well as debtors and creditors (whether actual or accrued) are taken into account when calculating the monthly unit valuation for each of the CIF's Pools.

For all asset Pools within the CIF the Custodian strikes a valuation on a monthly basis, at the close of business on the last calendar day of each calendar month. The Reserve Fund may trade units on a monthly basis with the actual trade taking place on the first business day of each calendar month.

2.6. Cash at Bank and in Hand

Cash at bank and in hand includes cash, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2.7. Accrued expenses

Accrued expenses are recognised initially at fair value.

2.8. Expenses

(a) Investment management and custodian fees

L&G investment management and custodian fees include brokers commission, registration fees, stamp duties, security exchange fees and levies from regulatory agencies and commissions to advisers.

Costs due but not paid by the end of the financial year are accrued.

(b) Irrecoverable withholding tax

Irrecoverable withholding taxes from overseas dividends are treated as an expense within the calculation of unit prices.

(c) Other expenses

Other expenses include service and operating costs and consist of audit fees, custodian fees, recharges from the States of Jersey, Treasury and Resources Department and costs of exchange rate transfers. Some of these are shown explicitly whilst costs directly relating to the operation of the CIF are treated as an expense within the calculation of unit prices.

2.9. Taxation

The Reserve Fund is exempt from Jersey income tax by virtue of Article 131 of the Income Tax (Jersey) Law 1961.

2.10. Cash flow statement

The Reserve Fund satisfies the criteria of an open ended investment fund and is therefore exempt from producing a cash flow statement as required by FRS 1, 'Cash flow statements (revised 1996)'.

3. Financial Assets and Financial Liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised on the Reserve Fund's balance sheet when the Reserve Fund becomes a party to the contractual provision of the instrument. The Reserve Fund derecognises its financial assets when the contractual rights to the cash flows from the financial asset expire. The Reserve Fund derecognises its financial liabilities when the obligation specified in the contract is discharged or cancelled or expires.

INVESTMENTS

(a) Classification

The Reserve Fund classifies its investments in equity securities as financial assets at fair value. On adoption of FRS 26, the Minister, designated the financial assets at fair value ('Financial Assets') at inception, as the portfolio is managed and its performance is evaluated on a fair value basis, in accordance with the Reserve Fund's documented investment strategy. The Reserve Fund's policy is for the Investment Manager and the Minister to evaluate the information and performance about these financial assets on a fair value basis together with other related financial information.

(b) Recognition

Purchases and sales of investments are recognised on the trade date, the date on which the Reserve Fund commits to purchase or sell the investment.

(c) Measurement

All financial assets and financial liabilities are initially recognised at fair value. Transaction costs are expensed with the unit prices. Dividend income is accrued on securities when they are quoted ex-dividend and are recognised within the unit prices. Gains and losses arising from changes in the fair value of financial assets or financial liabilities are recorded in the statement of total return, with annual movements summarised and reported under Note 6.

(d) Fair value estimation

The valuation of investments held at the year end is based on bid-price.

The valuation of the investments in the L&G pooled funds is based on the closing bid market prices of the units as confirmed by valuations received from the Investment Manager. These valuations are based on the bid prices of the underlying investments held by the Investment Manager in the pooled funds. The valuation of investments in the CIF is based on bid values of the underlying investments and is determined by the States of Jersey, Treasury and Resources Department.

Transaction costs, being incremental costs that are directly attributable to the acquisition or disposal of an investment, are added to purchase costs and netted against sale proceeds as appropriate.

Accrued interest

Accrued interest is measured at initial recognition at fair value.

Cash at Bank and in Hand

Cash at bank and in hand includes cash, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Accrued expenses

Accrued expenses are measured at initial recognition at fair value.

4. Financial Risk Management

FINANCIAL RISK FACTORS

The Reserve Fund's activities expose it to a variety of financial risks: market risk (including currency risk; fair value interest rate risk; cash flow interest risk and price risk), credit risk and liquidity risk. The Reserve Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Reserve Fund's financial performance.

Risk management is carried out by the Minister for Treasury and Resources, supported by a Committee, independently chaired, which is attended by the Minister for Social Security. The Committee meets every three months and L&G presents to the Minister half yearly to oversee the performance of the Reserve Fund. Hewitt Limited, investment adviser, attends the performance meetings and provides advice where appropriate.

The assets of the Reserve Fund consist of policies of assurance directly held by the States of Jersey and units in the CIF. The CIF assets are held with a global custodian, Northern Trust.

(a) Market Risk

The underlying investments of the L&G pooled funds and the CIF units are principally equities, fixed interest securities and bank deposits. The value of these is not fixed (other than bank deposits) and may go down as well as up. This may be the result of a specific factor affecting the value of an individual stock or may be caused by general market factors (such as interest rates, government policy or the health of the underlying economy) which could affect the entire portfolio of a fund. The Reserve Fund and CIF investment managers monitor the portfolios to minimise fluctuation in the fair value of the financial assets held and ensure the necessary policies and procedures are in place to manage the risk.

(i) Foreign exchange risk

The Reserve Fund purchases units, some of which contain securities denominated in a currency other than sterling and hence takes a position in other currencies. A substantial portion of the underlying financial assets of the pooled funds is denominated in currencies other than sterling with the effect that the balance sheet and total return can be significantly affected by currency movements. The Reserve Fund and CIF investment managers monitor the exchange rate risk to limit the level of foreign exchange exposure and ensure the necessary policies and procedures are in place to manage it.

(ii) Fair value interest rate risk

The pooled fund units accumulate income within their unit price and do not distribute the income. This is negligible risk to the Reserve Fund in terms of fair value interest rate risk.

(iii) Price risk

The Reserve Fund is exposed to equity securities price risk as a result of pooled fund units held and classified on its balance sheet at fair value through profit or loss. To manage its price risk arising from investments in equity securities, it diversifies its portfolio between various different unit funds.

The setting of the investment strategy has regard to the relative pricing of asset classes and the available investment opportunities. The relative prices of asset classes can vary substantially within each year and therefore the strategy has been designed to be flexible to adapt to changing market conditions. The investment in equities contains a high proportion of global equities in the Reserve Fund so as to not be too highly dependent on the UK economy.

There is no direct exposure to commodity price risk.

(b) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A-' are accepted.

Separate risk assessment has been undertaken in respect of the assets which are under the control of L&G. L&G is the largest manager of UK pension fund assets with a total of £228 billion invested in indexed assets and £194 billion in indexed corporate pension assets. In total they manage 2,950 pension fund clients. The ultimate holding company of L&G is Legal & General Group plc. The Minister therefore considers the exposure to credit risk is minimal.

Separate risk assessment is undertaken for the CIF assets, but since the CIF is held by the global custodian on behalf of the States of Jersey, overall the Minister considers the exposure to credit risk is minimal.

(c) Liquidity risk

The Reserve Fund is a long term investor that does not require its assets to be readily available. Liquidity is not a key component of the investment strategy except that the holding of liquid assets enables changes in strategy to be made easily. The Reserve Fund's cash is managed by the States of Jersey to meet its liabilities.

Prudent liquidity risk management includes maintaining sufficient cash to ensure future liabilities are met as and when required. Sufficient funds are transferred from the Social Security Fund on a quarterly basis to meet the investment management and custodian fees and any other expenses.

All the liabilities are payable on demand or in less than one year.

5. Capital Risk Management

The Reserve Fund's objectives when managing capital are to safeguard the Reserve Fund's ability to continue as a going concern in order to provide future benefits. The Minister for Treasury and Resources considers that there is no capital risk as the Reserve Fund does not have any debt.

6. Net Gains on Investments

	2010 £000	2009 £000
The net gains/(losses) on investments during the year comprise:		
Proceeds from sales of investments during the year	376,583	165,251
Original cost of investments sold during the year	(319,556)	(146,034)
Gains realised on investments sold during the year	57,027	19,217
Net appreciation/(depreciation) thereon already recognised in earlier periods	(80,701)	7,376
Net realised appreciation/(depreciation) for the year	(23,674)	26,593
Net unrealised appreciation for the year	104,561	80,701
Net gains on investments	80,887	107,294

7. Income

	2010 £000	2009 £000
Overseas dividends	39	(11)
Bank interest	2	–
Total income	41	(11)

The credit balance in 2009 relates to income accrued and due in 2008 of £11,158.59 for a tax reclaim which was later reversed in 2009 by the Custodian as it was not received.

8. Supplies and Services

	2010 £000	2009 £000
Administrative Recharges	27	36
Investment Advisory Fees	90	19
Audit Fees	19	18
Custodian Fees:		
The Northern Trust Corporation	13	8
Investment Management Fees:		
Legal and General Investment Management Limited	537	445
Total Supplies and Services	686	526

The increase in Investment Advisory and Management Fees in 2010 has been due to the transfer of investments into the CIF.

9. Investments

Movements in the investments during the year are detailed below:

	Value at 1 January 2010 £000	Purchases at Cost £000	Proceeds of Sales £000	Security Transfers £000	Changes in market value £000	Value at 31 December 2010 £000
Unit Trusts						
Unit Trust Bonds						
United Kingdom	33,230	–	–	–	2,411	35,641
	33,230	–	–	–	2,411	35,641
Unit Trust Equities						
United Kingdom	368,468	118,699	(65,100)	(126,083)	31,280	327,264
Other Europe	87,543	7,950	(19,122)	(12,139)	4,625	68,857
North America	130,397	7,525	(20,785)	(109,883)	12,225	19,479
Japan	24,209	900	(2,208)	(158)	3,950	26,693
Pacific Basin, excluding Japan	13,013	650	(2,600)	(1,269)	3,595	13,389
	623,630	135,724	(109,815)	(249,532)	55,675	455,682
CIF Investments						
United Kingdom						
Equities	–	80,005	–	–	5,631	85,636
Global Equities	–	186,781	–	–	15,804	202,585
	–	266,786	–	–	21,435	288,221
Cash	55,054	–	(17,236)	–	1,366	39,184
	711,914	402,510	(127,051)	(249,532)	80,887	818,728

Indirect costs including the bid offer spread costs on pooled funds have been added to the purchase cost or deducted from sale proceeds as appropriate. There were no transaction costs incurred on the purchase and sale of non pooled fund investments as none are held.

The security transfers amounting to £249,532,382 related to the in-specie transfer of assets from L&G to be invested into the States of Jersey Common Investment Fund UK and Global Equity active management pools during October and November 2010.

10. Debtors

	2010 £000	2009 £000
Accrued interest	2	–

The Minister considers that the carrying amount of the debtors approximates to its fair value and that no debtors are impaired or past their due date.

The ageing of the debtors is within 3 months.

11. Creditors: amounts falling due within one year

	2010 £000	2009 £000
Audit fee	19	18
Investment advisory fee	47	6
Custody fee	6	2
Investment management fee	95	129
	167	155

The Minister considers that the carrying amount of the creditors approximates to their fair value.

12. Transfers from the Social Security Fund

	2010 £000	2009 £000
Investment Funds transferred from Social Security Fund during the year	45,598	38,585

13. Related Party Transactions

The Treasurer of the States of Jersey is the Accounting Officer of the Social Security (Reserve) Fund and the Treasury & Resources Department provide accounting services.

During the year ended 31 December 2010 an amount of £27,104 (2009: £35,672) was paid from the Reserve Fund to the Treasury Department in respect of the services provided.

No other related party transactions existed.

14. Ultimate controlling party

The Accounting Officer of the Reserve Fund is the Treasurer of the States. The Minister for Treasury and Resources manages the performance of the Reserve Fund, supported by a Committee independently chaired which is attended by the Minister for Social Security. Under the Social Security (Jersey) Law 1974, the Minister of Social Security is responsible for reporting the financial statements of the Reserve Fund.

Health Insurance Fund

Income and Expenditure Account	<i>Page 54</i>
Portfolio Statement	<i>Page 55</i>
Statement of total recognised gains & losses	<i>Page 56</i>
Balance Sheet	<i>Page 57</i>
Cash Flow Statement	<i>Page 58</i>
Notes to the Financial Statements	<i>Page 59</i>

Statement Of The Responsibilities Of The Minister For Social Security Of The States Of Jersey In Respect Of The Financial Statements

The Health Insurance (Jersey) Law 1967 requires that financial statements of the Health Insurance Fund shall be prepared in such form, manner and at such times as the Minister for Social Security may determine. The Minister is responsible for preparing the financial statements.

In preparing the financial statements the Minister is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate .

The Minister is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Fund.

The Minister is responsible for safeguarding the assets of the Funds and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ANNUAL REPORT

The Annual Report is available as a publication and on a website maintained by the States of Jersey. The maintenance and integrity of the website is the responsibility of the States of Jersey. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the Annual Report since they were initially presented on the website. Visitors to the website need to be aware that legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in their own jurisdiction.

Independent Auditor's Report To The Minister For Social Security

I have audited the financial statements of the Health Insurance Fund ("the Fund") for the year ended 31 December 2010 in accordance with the Health Insurance (Jersey) Law 1967. The financial statements comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF THE MINISTER AND THE COMPTROLLER AND AUDITOR GENERAL OF THE STATES

As explained more fully in the Statement of the Responsibilities of the Minister for Social Security of the States of Jersey in respect of the Financial Statements, the Minister is responsible for the preparation of the financial statements in accordance with the Health Insurance (Jersey) Law 1967.

My responsibility is to ensure that the financial statements are audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require that I comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Minister for Social Security of the States of Jersey in accordance with the Health Insurance (Jersey) Law 1967 and for no other purpose. I do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by my prior consent in writing.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Minister; and the overall presentation of the financial statements.

OPINION ON THE FINANCIAL STATEMENTS

In my opinion, the Financial Statements:

- give a true and fair view, in accordance with the Health Insurance (Jersey) Law 1967, of the state of the Fund's affairs as at 31 December 2010 and of the income and expenditure and cash flows for the year then ended; and
- have been prepared in accordance with the requirements of the Health Insurance (Jersey) Law 1967.

OPINION ON OTHER MATTER

In my opinion, the information given in the Minister's Report and the Statistical Appendix is consistent with the Accounts.

MATTERS ON WHICH I AM REQUIRED TO REPORT BY EXCEPTION

I have nothing to report in respect of the following matters where the Health Insurance (Jersey) Law 1967 requires me to report to you if, in my opinion:

- Proper accounting records have not been kept by the Fund; or
- The financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations required for my audit; or
- Information specified by the Health Insurance (Jersey) Law 1967 has not been disclosed.



C Swinson OBE
Comptroller and Auditor General
Morier House, Halkett Place, St Helier, JE1 1DD
26 July 2011

Income and Expenditure Account for the year ended 31 December 2010

	Notes	2010	2009
		£000	£000
Income	1		
Contributions		28,660	28,912
Bank interest		1	294
Pharmaceutical discounts		–	38
Net Gains on investments during the year		2,255	–
Investment income		318	47
		31,234	29,291
Expenditure	1		
Benefits			
Medical		7,102	5,785
Pharmaceutical		16,703	16,485
		23,805	22,270
Gluten free food vouchers		180	154
		23,985	22,424
Administration Expenses			
Staff costs	5	623	565
Other administrative expenses		1,049	924
		1,672	1,489
		25,657	23,913
Surplus of income over expenditure for the year		5,577	5,378

CONTINUING OPERATIONS

All of the fund's income and expenditure is derived from continuing activities.

The notes on pages 59 to 68 form an integral part of these financial statements.

Portfolio Statement as at 31 December 2010

	<i>Holding Units</i>	Market Value 31 December 2010 £000	<i>Percentage of Total Portfolio %</i>
Common Investment Fund			
UK equities – Majedie	12,547,160	13,430	18.77
Global equities – Longview	7,667,709	8,353	11.67
Global equities – Walter Scott	7,667,709	8,285	11.58
Corporate Bond Long Term View	21,304,888	21,582	30.17
Corporate Bond Short Term View	5,883,508	5,948	8.30
		57,598	80.51
Cash			
RLAM – Long term Cash Pool	10,422,099	10,589	14.80
RLAM – Long term Cash Pool	3,343,293	3,356	4.69
		13,945	19.49
Portfolio of investments		71,543	100.00

Comparatives are not disclosed in accordance with the Statement of Recommended Practice – Financial Statements of Authorised Funds.

The notes on pages 59 to 68 form part of these accounts.

Statement of Total Recognised Gains and Losses as at 31 December 2010

The net gains on investments during the year comprise:

	2010 £000	2009 £000
Proceeds from sales of investments during the year	55,591	2,000
Original cost of investments sold during the year	(55,522)	(2,000)
Gains realised on investments sold during the year	69	–
Net realised appreciation for the year	69	47
Net unrealised appreciation for the year	2,186	–
Net gains on investments	2,255	47

The notes on pages 59 to 68 form part of these accounts.

Balance Sheet as at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed Assets			
Financial assets at fair value	8	71,543	–
Current assets			
Debtors	6	12,323	9,153
Cash at bank and in hand		1,004	70,047
		13,327	79,200
Creditors: amounts falling due within one year	7	1,817	1,724
Net Current Assets/(Liabilities)		11,510	77,476
Net Assets		83,053	77,476
Funds Employed			
Revenue Reserves	9	83,053	77,476

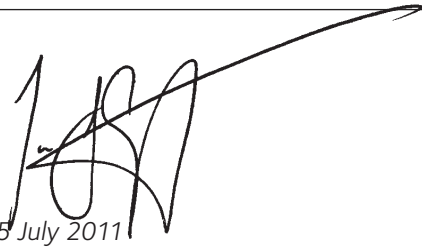
Signed:



Date: 25 July 2011

(Chief Officer – Social Security Department)

Signed:



Date: 25 July 2011

(Minister for Social Security)

The notes on pages 59 to 68 form part of these accounts.

Cash Flow Statement as at 31st December 2010

	Notes	2010 £000	2009 £000
Operating Activities			
Net cash (outflow) / inflow from operating activities	11	(69,043)	2,047
Management of Liquid Resources			
Increase in money held on deposit		69,043	(2,047)
Purchase of Investments		(124,879)	-
Sale of Investments		55,591	-
Realised gain on cash deposited		69	-
Decrease in cash in year		(69,219)	-

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

		2010 £000	2009 £000
Net cash (outflow)/inflow from management of liquid resources		(69,043)	2,047
Change in Net Funds		(69,043)	2,047
Net Funds at 1 January		70,047	68,000
Net Funds at 31 December	12	1,004	70,047

The notes on pages 59 to 68 form part of these accounts.

Notes to the Financial Statements for the year ended 31 December 2010

1. Accounting policies

1.1. Basis of Preparation

The financial statements are prepared under the historical cost convention, in accordance with UK GAAP, so far as it is applicable to these financial statements. The Minister considers that the formats adopted within these financial statements are the most appropriate to the circumstances of the Health Insurance Fund (the "Health Fund") and in accordance with the Health Insurance (Jersey) Law 1967.

The preparation of financial statements in conformity with UK GAAP requires the use of certain critical accounting estimates. It also requires the Minister to exercise his judgement in the process of applying the Health Fund's accounting policies.

A summary of the more important policies are set out below together with an explanation of any changes which have been made to previous policies on adoption of new accounting standards.

UK GAAP DISCLOSURES

The Department has considered the disclosure requirements under UK GAAP and has adopted FRS26, 'Financial Instruments: Recognition and Measurement' and FRS 29, 'Financial Instruments Disclosure'. FRS26 requires that any investments (including those within Cash at Bank and in Hand) are carried using the bid price. FRS29 requires disclosure as to the nature and risks arising from financial instruments to which the Health Fund is exposed and how these are managed.

1.2. Foreign Currency

(a) Functional and Presentation Currency

The performance of the Health Fund is measured and reported to the Minister in sterling. The Minister considers sterling as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in sterling, which is the Health Fund's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1.3. Income

Income is accounted for on an accruals basis and includes the following categories:

(a) Contributions

Contributions represent the income received from payments made by employers, employees and self-employed. Health Insurance contributions are set at the rate of 2% of earnings (Employees, 0.8%; Employers, 1.2%). The financial

statements include an estimation in respect of the contributions from insured persons and employers for the year ended 31 December 2010.

(b) Bank Interest Received

Interest income is recognised on an accrual basis, by reference to the principal outstanding and the interest rate.

(c) Gains on Investments

Sales and Purchases of investments held within the States of Jersey – Common Investment Fund (the “CIF”) are recognised on their trade date, the date on which a commitment to purchase or sell the investment is made. The profit or loss of units sold is calculated based on the market value of the consideration on the trade date compared with the average cost of the units.

(d) Investment income

Investment income including accrued interest consists of interest received for the certificates of deposit upon maturity.

1.4. Benefits

Benefits are paid to claimants who qualify for a benefit within the Health Insurance (Jersey) Law 1967 and meet the required conditions. Benefits are recognised over the period when they are due and consist of the following:

(a) Medical

These are payments claimed by individuals and assigned to General Practitioners for visits.

(b) Pharmaceutical

These are payments claimed by Pharmacists for the agreed cost of prescription drugs supplied and a flat rate dispensing fee per item of £3.05 (to 31 October 2010). The rate was increased on 1 November 2010 to £3.13.

(c) Gluten Free Food Vouchers

These are vouchers in respect of the purchase of gluten-free food because of a medical condition which needs a gluten free diet.

1.5. Administrative Expenses

Administrative expenses are accounted for on an accruals basis, with the exception of bad debts which are accounted for as set out in note 1.8, and consist of the following:

(a) Staff Costs

Staff who work on the Health Fund are employed by the States Employment Board and are therefore recorded gross in the Social Security Departmental pages of the States Financial Report and Accounts. The cost of staff who work on the Health Fund is recharged as a service to the Health Fund and recorded as staff costs. These costs include salaries, wages paid to staff and pension contributions.

(b) Other Administrative Expenses

Other administrative expenses include service costs, operating costs and bad debts.

1.6. Cash at Bank and in Hand

Cash at bank and in hand includes cash, certificates of deposit and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

1.7. Debtors

Debtors are measured at initial recognition at fair value. Contributions outstanding at 31 December 2010 represent accrued contributions for the last quarter, together with billed contributions due from earlier periods. Benefits paid in 2010 but in respect of periods extending in 2011 are treated as prepayments.

1.8. Bad debts

Provisions

Instalment arrangements are made with Contributors to reimburse outstanding contributions due from earlier periods. A provision for bad debts is only made when an instalment is not received from a contributor.

Write-offs

Class 1 contributions are written off when the employer cannot contribute on behalf of their employee by virtue of being declared en désastre or bankrupt. Class 2 contributions are written off when the individual has defaulted on an instalment arrangement and died.

1.9. Provision for Liabilities and Charges

Provision is made in the accounts in respect of obligations arising from past events where the predicted outcome of the event is considered probable and there is a reliable estimate of the amount of the liability.

1.10. Loans Receivable

The Health Fund does not operate a bank account, other than certificates of deposit. Consequently all receipts and payments in relation to the Health Fund are made through nominated Social Security Fund bank accounts and accounted for as a loan.

1.11. Creditors

Creditors are measured at initial recognition at fair value.

1.12. Taxation

The Health Fund is exempt from Jersey Income Tax by virtue of Article 131 of the Income Tax (Jersey) Law 1961.

2. Investments

2.1. Strategy

The Minister for Treasury and Resources is responsible for the investment of the Fund's assets. The Minister for Treasury and Resources may, after consultation with the Minister for Social Security appoint one or more investment managers for the Fund.

In order to meet the fund's purpose the strategy set is a mix between capital growth and income distribution. The Minister has set a strategic aim of investing 40% in return seeking assets (equities) to produce long term returns, with the remainder, 60% in risk reducing assets to provide some stability and in the case of corporate bonds, income returns.

The longer term strategic aim for the fund is to invest within the parameters indicated below:

<i>Asset Class</i>	<i>Strategic Aim</i> %	<i>Range</i> %
Equities	40	20–50
Bonds / Cash	60	35–80

The ranges indicate tolerable variations according to investment conditions at any time.

2.2. Structure

The Health Fund began investing in the CIF on 1 July 2010 and progressed with its investment strategy to acquire units in each of the following investment pools:

- UK Equities
- Overseas Equities
- Short Term Corporate Bonds (<5 years)
- Long Term Corporate Bonds (>5 years)
- Short Term Cash and Cash Equivalents (<3 months)
- Long Term Cash and Cash Equivalents (>3 months)

All participants account for their investment in the CIF as an asset on the basis of units held with any increases in the value of units held in the CIF recognised through the Statement of Recognised Gains and Losses (STRGL).

For the assets invested in the CIF the current investment objectives are to outperform the targets for each CIF sector.

3. Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognised on the Health Fund's balance sheet when the Health Fund becomes a party to the contractual provision of the instrument. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Health Fund derecognises its financial assets when the contractual rights to the cash flows from the financial asset expire. The Health Fund derecognises its financial liabilities when the obligation specified in the contract is discharged, cancelled or expires.

INVESTMENTS

(a) Classification

The Health Fund classifies its investments in equity securities as financial assets at fair value through profit or loss.

(b) Recognition

Purchases and sales of investments are recognised on the trade date, the date on which the Health Fund commits to purchase or sell the investments.

(c) Measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed within the unit prices. Subsequent to initial recognition all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in fair value of the 'financial assets or financial liabilities at fair value through profit and loss' category are presented in the income statement in the period in which they arise.

(d) Fair value estimation

The valuation of investments held at the year end is based on bid-price.

Debtors

Debtors are measured at initial recognition at fair value.

Cash at Bank and in Hand

Cash at bank and in hand includes cash, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Creditors

Creditors are measured at initial recognition at fair value.

4. Financial Risk Management

The Health Fund's activities expose it to a variety of financial risks: market risk (including currency risk; fair value interest rate risk; cash flow interest risk and price risk) liquidity and credit risk. The Health Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Health Fund's financial performance.

The assets of the Health Fund consist of units in the CIF. The CIF assets are held with a global custodian, Northern Trust.

(a) Market Price Risk

The underlying investments of the CIF units are principally equities, fixed interest securities and bank deposits. The value of these is not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual stock or may be caused by general market factors (such as interest rates, government policy or the health of the underlying economy) which could affect the entire portfolio of a fund. The CIF investment manager monitors the portfolio to minimise fluctuation in the fair value of the financial assets held and ensures the necessary policies and procedures are in place to manage the risk.

(b) Credit Risk

The Health Fund's principal financial assets are debtors, units in the CIF and certificates of deposit. The Health Fund's credit risk is primarily attributable to its debtors. The Health Fund's objectives for managing the risk are to ensure that the trade are recovered on a timely basis and that the cash at bank is secure. Where monies are not received within their payment terms they are monitored and followed up by the Department's Contribution and Enforcement team for recovery. In these instances instalment arrangements are made for repayment of monies owed or court action progressed. Contribution debtor credit risk is limited as monies are due from a large number of debtors, none of whom are significant in isolation.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies with a minimum rating of 'A' only accepted for short term deposits and 'AA' for longer term deposits (+3 months).

Separate risk assessment is undertaken for the CIF assets, but since the CIF is held by the global custodian on behalf of the States of Jersey, overall the Minister considers the exposure to credit risk is minimal.

(c) Liquidity Risk

The Health Fund's exposure to liquidity risk is low due to the volume of cash available to meet its short-term obligations. The Health Fund's objectives for managing the risk are to ensure that there are enough liquid resources to meet short-term liabilities.

Daily cash flow forecasts are undertaken and any liquidity risk identified as part of this process is addressed by managing the amounts placed on short-term deposit.

(d) Fair value interest rate Risk

During the year, the Fund received income from its fixed bank deposits. These cash flows were primarily fixed in nature and therefore there was a potential risk of market rate movement during the fixed period. From November 2009, the Department manages its fund deposits through the States of Jersey Cash Managers 'Royal London Asset Management'. All liabilities are payable upon demand or in less than one year.

5. Staff Costs

Staff costs represents a Departmental charge to the Health Fund. During the year ending 31 December 2010, the Fund had no direct employees.

6. Debtors

	2010 £000	2009 £000
Inter fund balance: Social Security Fund	4,126	2,089
Debtors:		
Contributors - individuals and employers	3,645	2,738
Other debtors	97	114
	3742	2852
Prepayments and accrued income:		
Contributors - individuals and employers	4,455	4,212
	12,323	9,153

The Minister considers that the carrying amount of the debtors approximates to their fair value.

As at 31 December, debtors of carrying value £3.7 million (2009: £2.9 million) were past their due date but not impaired. The ageing is shown below:

	2010 £000	2009 £000
Up to 3 months	3,727	2,825
3 to 6 months past due	8	14
6 to 12 months past due	7	13
	3,742	2,852

BAD DEBT PROVISION

Debtors are shown net of a bad debt provision £9,389 (2009: £6,829), as analysed below:

	2010 £000	2009 £000
Up to 3 months	–	3
3 to 6 months past due	1	–
6 to 12 months past due	–	1
Over 12 months past due	8	3
	9	7

During the year, bad debts of £3,142 (2009: £1,924) were written off.

7. Creditors: amounts falling due within one year

	2010 £000	2009 £000
Creditors:		
Amounts due to Doctors for Medical Benefit	89	133
Amounts due to Pharmacists for prescriptions	1,613	1,476
Amounts due to NHS Business Services Authority for the cost of prescription processing	60	95
Other creditors	55	20
	1,817	1,724

The Minister considers that the carrying amount of the creditors approximates to their fair value.

MATURITY OF FINANCIAL LIABILITIES:

The maturity profile of the carrying amount of the Health Fund's liabilities, as at 31 December was as follows:

	2010 £000	2009 £000
Up to 3 months	1,817	1,686
3 to 6 months past due	–	38
	1,817	1,724

8. Investments

Movements in investments during the year are detailed below:

	Value at 1 January 2010 £'000	Purchases at Cost £'000	Proceeds of Sales £'000	Changes in Market Value £'000	Value at 31 December 2010 £'000
CIF Investments					
United Kingdom Equities	–	12,572	–	858	13,430
Global Equities	–	15,366	–	1,272	16,638
Corporate Bonds	–	27,653	–	(123)	27,530
	–	55,591	–	2,007	57,598
Long Term Cash	–	12,520	(2,099)	168	10,589
Short Term Cash	–	56,768	(53,492)	80	3,356
		69,288	(55,591)	248	13,945
Total	–	124,879	(55,591)	2,255	71,543

9. Revenue Reserves

	2010 £000	2009 £000
As at 1 January	77,476	72,098
Retained surplus for the year	5,577	5,378
As at 31 December	83,053	77,476

10. Related Party Transactions

The Health Fund which considers the States of Jersey to be its ultimate controlling party, has the following commercial, arm's length relationships with the States of Jersey Treasury and Resources and other States Departments as noted in the table below.

Payments made during the year to the States of Jersey directly controlled (strategic investments) entities:

	2010 £000	2009 £000
Jersey Post International Limited	–	11
Jersey Telecom Group Limited	11	11
Jersey Electricity Company Limited	11	10
	22	32

The Health Insurance Fund does not operate a bank account, other than certificates of deposit. Consequently all receipts and payments in relation to the Health Insurance Fund are made through the Social Security Department bank accounts due to their relationship in respect of the Social Security Fund and then accounted for as loan.

During the year the Social Security Department made net payments on behalf of the Health Insurance Fund which in 2010 amounted to: £2.173m (2009: £2.713m). At the year end the Health insurance Fund was owed, 2010: £4.102m (2009: £2.093m).

Related Party costs for the year ended 31 December are analysed below:

	2010 £000	2009 £000
Supplies and Services	623	628

RELATED PARTY BALANCES AT THE YEAR END:

	2010 £000	2009 £000
Amounts due to related parties:		
Treasurer of the States	1	1
Jersey Electricity Company Limited	–	1
Jersey Post International Limited	–	3
	1	5
Amounts due from related parties:		
Social Security Fund	4,126	2,089

11. Reconciliation of Surplus for the Year to Net Cash Flow from Operating Activities

	2010 £000	2009 £000
Surplus of income over expenditure for the year	5,577	5,378
Net Gains on investments	(2,186)	–
Purchase of Investments	(124,879)	–
Sale of Investments	55,591	–
Realised Gain on Cash Deposited	(69)	–
Increase in debtors	(3,170)	(2,814)
Increase / (decrease) in creditors	93	(517)
	(69,043)	2,047

12. Analysis of Net Funds

	At 1 January 2010 £000	Cash flows £000	At 31 December 2010 £000
Liquid resources	70,047	(69,043)	1,004
Net funds	70,047	(69,043)	1,004

13. Ultimate Controlling Party

Under the Health Insurance (Jersey) Law, 1967 the Minister of Social Security is the ultimate controlling party of the Health Fund. The Minister of Social Security is a member of the council of Ministers of the States of Jersey and is responsible for safeguarding the assets of the Health Fund and for preparing the financial statements.

Statistical Appendix

Statistical Appendix 1

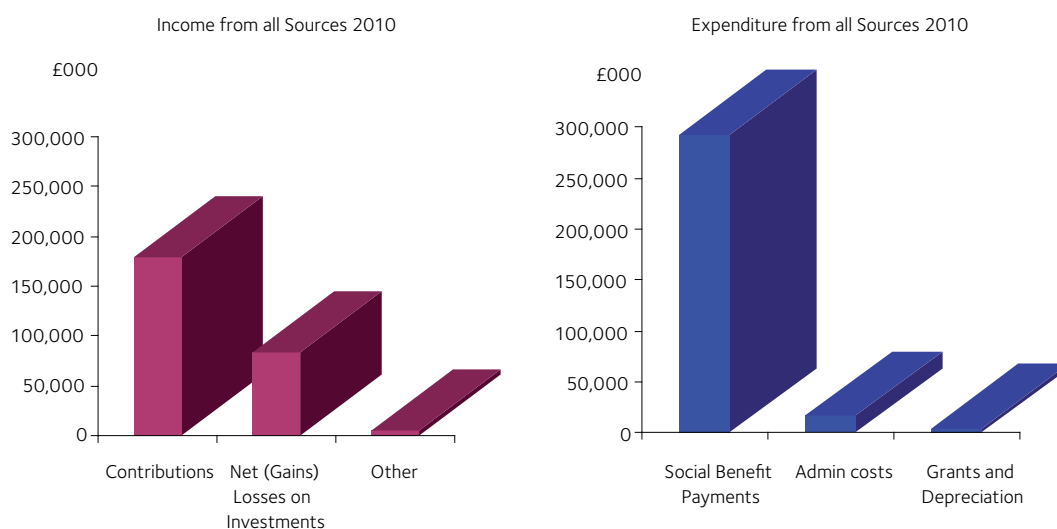
Social Security Department – Service Analysis Summary of Income and Expenditure by Provider

	Social Security Department £000	Social Security Fund £000	Social Security Reserve £000	Health Insurance Fund £000	Inter-Departmental Transfers ** £000	Total 2010 £000	Total 2009 £000
INCOME							
Contributions	–	(150,462)	–	(28,660)	–	(179,122)	(180,699)
States Contributions	–	(66,667)	–	–	66,667	–	–
Hire and Rentals	–	(163)	–	–	100	(63)	(70)
Sales of Services *	(3,653)	–	–	–	–	(3,653)	(3,192)
Net (Gains) / Losses on Investments	–	–	(80,887)	(2,322)	–	(83,209)	(107,294)
Investment Income	–	(188)	–	(387)	–	(575)	(499)
Other Revenue	(1)	(5)	–	–	–	(6)	(23)
Total Income	(3,654)	(217,485)	(80,887)	(31,369)	66,767	(266,628)	(291,777)
EXPENDITURE							
Social Benefit Payments	156,391	178,413	–	23,985	(66,667)	292,122	282,932
Staff Costs	6,857	–	–	–	–	6,857	6,328
Supplies and Services*	713	5,482	645	1,432	–	8,272	7,399
Admin Expenses	85	224	–	118	–	427	496
Premises and Maintenance	217	258	–	29	(100)	404	384
Other Operating Expenditure	561	(15)	–	2	–	548	180
Grants and Subsidies Payments	1,797	–	–	26	–	1,823	1,589
Depreciation / Capital Charges	–	1,906	–	–	–	1,906	1,906
Finance Costs	–	50	–	65	–	115	69
Reserve Fund Appropriation	–	645	(645)	–	–	–	–
Total Expenditure	166,621	186,963	–	25,657	(66,767)	312,474	301,283
(SURPLUS)/DEFICIT FOR YEAR***							
	162,967	(30,522)	(80,887)	(5,712)	–	45,846	9,506

* Staff Costs recharged to the Social Security Fund and Health Insurance Fund ('the Funds') are included in Supplies and Services of the Fund and as income described as Sales and Services in the Social Security Department. These costs amounted to £3,006,882 for the Social Security Fund and £623,039 for the Health Insurance Fund are included within Supplies and Services costs of the respective Funds.

** Inter-departmental transfers are in respect of internal fund movements between the Social Security Department, Social Security Fund and Health Insurance Fund. These relate to Supplementation and the rent of premises.

*** In respect of the Social Security Department, the amount relates to the net spend of the Social Security Department which gives an under spend of £8,355,110 against the Final Approved Budget.



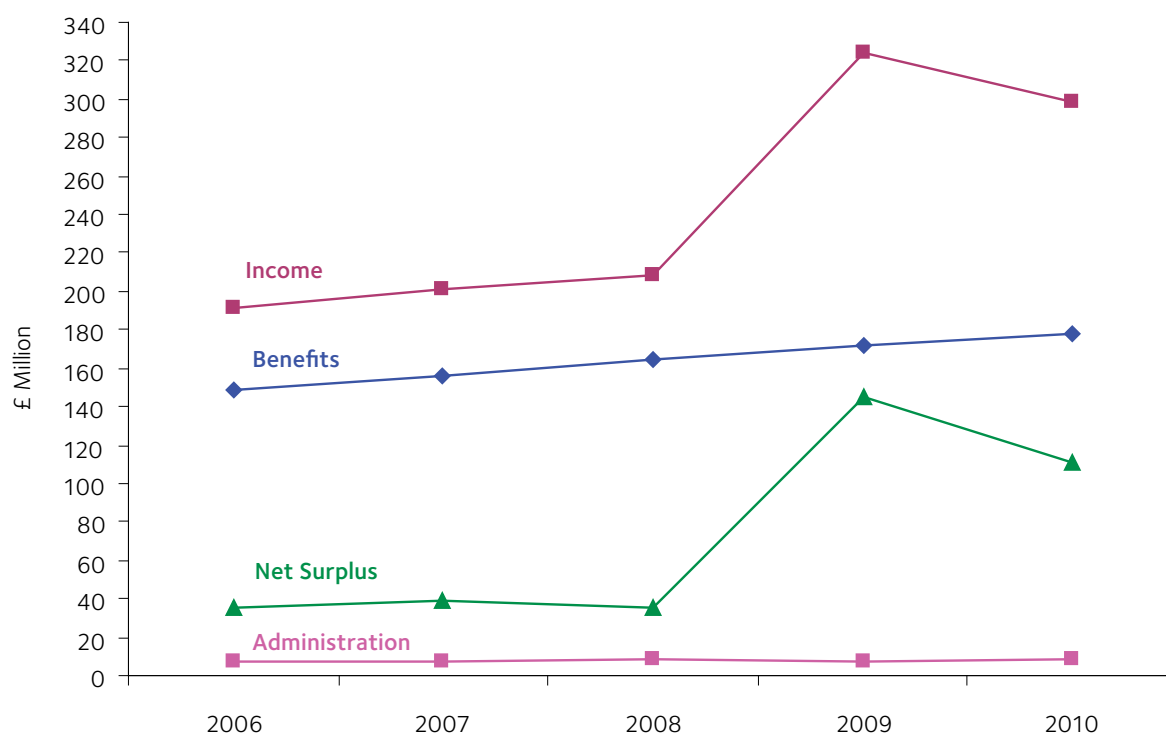
The above information is for the benefit of the user and is not part of the audited financial statements.

Statistical Appendix 2

Five year summary of the Social Security Fund and the Social Security (Reserve) Fund

	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000
INCOME					
Contributions	123,954	133,913	144,634	151,787	150,462
Supplementation	56,567	58,627	61,842	64,995	66,667
Net Investment income	8,671	7,001	3	107,294	80,926
Bank interest & other income	2,070	1,887	2,004	349	358
Total Income	191,262	201,428	208,483	324,425	298,413
EXPENDITURE					
Benefits	148,225	155,428	164,565	172,091	178,413
Administration	5,512	5,341	6,124	5,781	6,685
Depreciation	2,267	2,061	1,906	1,906	1,906
Total Expenditure	156,004	162,830	172,595	179,778	187,004
NET SURPLUS	35,258	38,598	35,888	144,647	111,409
NET ASSETS	641,680	711,031	637,173	781,822	893,231

SOCIAL SECURITY FUND SUMMARY 2006 TO 2010

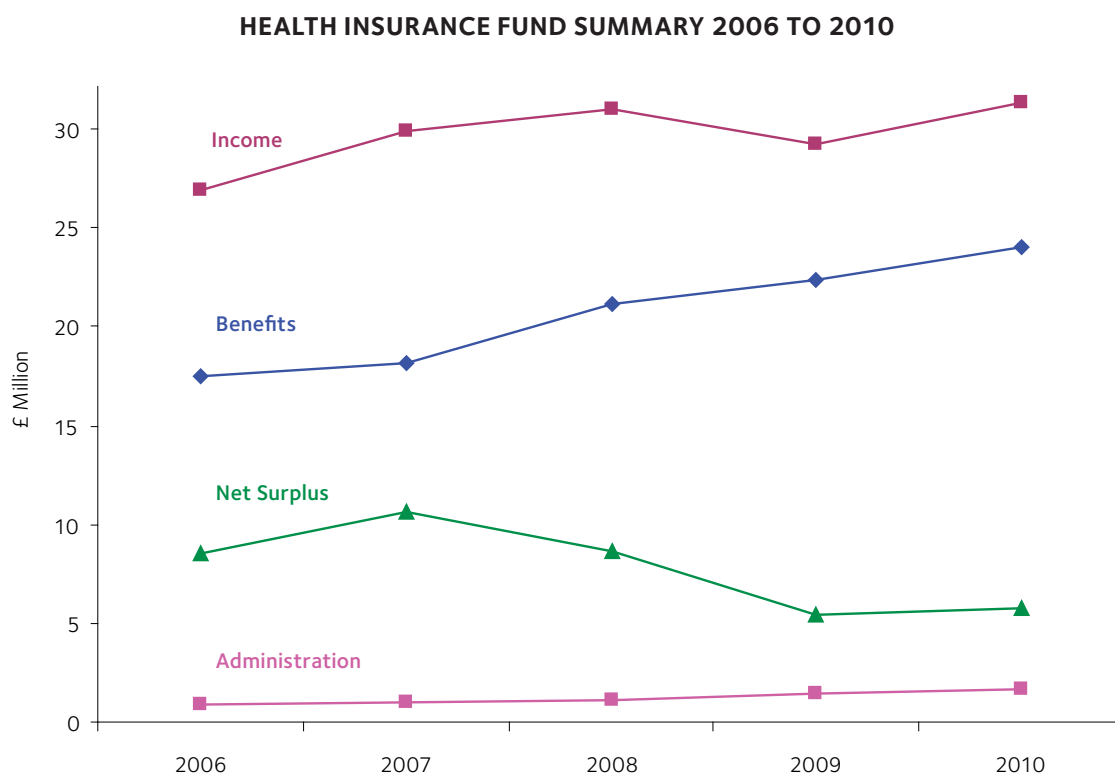


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Statistical Appendix 3

Five year summary of Health Insurance Fund

	2006	2007	2008	2009	2010
	£000	£000	£000	£000	£000
INCOME					
Contributions-					
Contributors	23,610	25,507	27,549	28,912	28,660
Taxation	1,218	1,276	125	-	-
Bank interest	1,997	2,986	3,138	294	1
Investment Income / Gain	-	-	-	-	2,708
Discounts received	121	149	158	85	-
Total Income	26,946	29,918	30,970	29,291	31,369
EXPENDITURE					
Benefits	17,534	18,210	21,154	22,424	23,985
Administration	929	1,051	1,153	1,489	1,672
Total Expenditure	18,463	19,261	22,307	23,913	25,657
NET SURPLUS	8,483	10,657	8,663	5,378	5,712
NET ASSETS	52,778	63,435	72,098	77,476	83,188



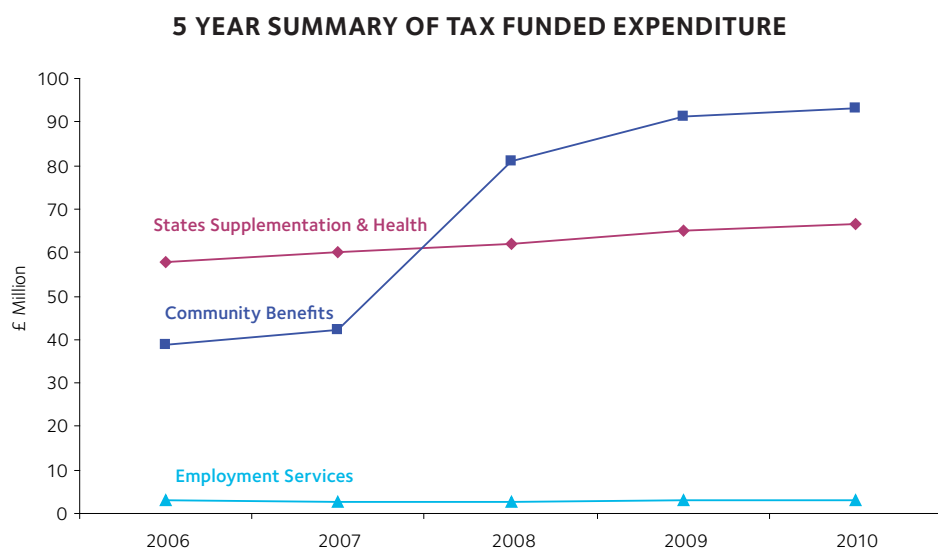
The above information is for the benefit of the user and is not part of the audited financial statements.

Statistical Appendix 4

Five year summary of Social Security (Tax Funded) Expenditure

	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000
NET EXPENDITURE					
Contribution from the States					
States Supplementation	56,567	58,627	61,842	64,995	66,667
Health Insurance Exceptions*	1,218	1,276	125	-	-
Total Contribution from the States	57,785	59,903	61,967	64,995	66,667
Community Benefits					
Income Support	-	-	70,832	83,286	84,874
Food Costs Bonus	-	-	109	257	206
Family Allowances*	5,360	5,564	409	-	-
Dental Benefit	95	92	92	87	88
Non-Contributory Death Grants	10	11	17	14	16
Milk at Reduced Rate*	350	329	16	-	-
Attendance Allowance*	3,958	4,161	358	-	-
Invalid Care Allowance	2,091	2,070	2,203	2,281	2,210
Disablement Allowance*	1,053	1,120	105	-	-
Welfare and Residential Care*	13,201	16,218	1,534	-	-
Christmas Bonus	1,459	1,565	1,662	1,692	1,745
Disability Transport Allowance*	6,470	6,616	568	-	-
Childcare Allowances*	514	513	(87)	-	-
Childcare Support	-	-	5	3	-
Social Fund (States)	136	198	100	21	45
65 + Health Plan	176	46	267	295	310
TV Licence 75+	176	195	204	212	240
Community Benefits Admin Direct and Indirect	3,824	3,625	2,459	3,290	3,564
Total Community Benefits	38,873	42,323	80,853	91,438	93,298
Employment Services					
Employment	2,219	1,629	1,731	2,112	2,015
Health and Safety	385	393	390	413	386
Employment Relations	505	485	557	575	601
Total Employment Services	3,109	2,507	2,678	3,100	3,002
Total Net Expenditure	99,767	104,733	145,498	159,533	162,967

* Benefit paid until 27 January 2008 and then encompassed within Income Support benefit



Statistical Appendix 5

Contribution and Beneficiary Statistical Data

	2006	2007	2008	2009	2010
SOCIAL SECURITY					
Number of Contributors					
Employed – Class 1	42,990	43,989	44,913	44,033	43,827
Self Employed – Class 2	3,900	4,031	4,014	3,981	3,916
Red Card's	4,416	4,276	4,125	3,997	3,851
Receiving credits only	4,708	4,553	4,273	4,281	4,277
Receiving supplementation	30,781	30,799	31,478	32,879	33,223
Number of Beneficiaries					
Old Age Pensions	23,484	24,202	24,894	25,467	26,387
Survivor's Benefit	945	952	937	940	940
Short Term Incapacity Allowance – annual claims	33,436	33,371	34,790	35,765	33,594
Invalidity Benefit	1,754	1,575	1,405	1,272	1,132
Long Term Incapacity Allowance	1,785	2,066	2,237	2,352	2,589
Maternity Allowance – annual claims	924	1,005	1,014	1,016	1,033
HEALTH INSURANCE					
Number of persons in the scheme	84,177	85,013	90,800	91,800	92,500
Number of doctors' visits during year by claimants	393,590	392,416	350,360	366,757	344,054
Number of prescriptions during year	1,251,616	1,324,335	1,489,319	1,590,227	1,651,355
Cost per prescription	£8.89	£9.02	£10.43	£10.35	£10.07
Gluten Free Food beneficiaries	205	216	235	266	281
STATES FUNDED SCHEMES					
Income Support beneficiaries	–	–	8,362	8,529	7,617
Dental Scheme members	1,309	1,331	1,255	1,214	1,238
Invalid Care Allowance beneficiaries	177	181	181	180	173
Christmas Bonus beneficiaries	18,262	18,544	18,702	18,839	18,994
65+ Health Scheme members	2,740	2,779	2,826	2,868	2,854
Television Licence beneficiaries	1,425	1,500	1,435	1,443	1,580
Actively Seeking Work as at 31 December	427	322	670	1,107	1,210

The above statistical information is for the benefit of the user and is not part of the audited financial statements.

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