

19-21 Broad Street | St Helier
Jersey | JE2 4WE

Deputy Louise Doublet
Chair
Health and Social Security Scrutiny Panel

Sent by email

28th October 2024

Dear Deputy Doublet

Health and Social Security Scrutiny Panel: Proposed Budget 2025-2028 Review

Thank you for your letter dated 21st October 2024 regarding the Panel's review into the Proposed Budget 2025-2028. I have responded to each of your questions in turn below:

Social Security (Reserve) Fund – Proposed Acquisition of Government Headquarters Building

1. Please could you clarify the anticipated terms of the lease agreement with the government? Specifically, how will the annual rent of £3.8 million be structured in relation to RPI adjustments?

The detailed lease terms remain under review by Jersey Property Holdings and the Law Officers' Department. The lease will be a full repairing and insuring lease and will broadly reflect the commercial terms established in the proposed lease agreement with the building's developer, which would have executed if the Government had not decided to purchase the building. In line with that lease agreement, the annual rent payable will increase by Jersey RPI subject to a minimum increase of 2% and a maximum increase of 5% per year.

2. What is the expected residual value of the property once the Social Security (Reserve) Fund takes ownership? How will this value impact the fund's overall financial health?

The Fund will acquire the building for £91 million, reflecting the cost of acquisition from the Developer. This represents a conservative valuation. Given the commitment of the Government of Jersey, a tenant with AA credit rating, to a 25-year inflation-linked lease of the building, advisors for the Office Accommodation Project have estimated that the building's value would exceed £100 million at acquisition.

At the end of the 25-year lease, the residual value is estimated to be £48 million in 2024 prices over the period. This valuation implies a depreciation in value of almost 50%. External advisors judged the residual value assumption to be “very prudent” and suggested that a fall in value of 33% would be a reasonable commercial estimate based on the current market value for new prime office space and premises of an equivalent grade that are currently 25-years old.

The conservative residual value assumption has been applied to protect the Fund from risks associated with the uncertainty surrounding commercial property values over the period.

The addition of the local infrastructure investment to the overall asset allocation allows the Fund to meet its target return of RPI+3% and to do so with a lower overall risk profile. The allocation to a local infrastructure investment has been considered carefully. The investment represents under 5% of the current portfolio value, with the remaining 95% of the Fund invested in a globally diversified portfolio. This provides significant protection from any domestic pressures which might challenge Social Security funding.

As well as having positive cash generation qualities backed by a highly rated counterparty, a small local allocation can also have diversification benefits. As rental yields from the investment are linked to local inflation, they are expected to align with the future fund liabilities and act as a soft hedge. Both of these characteristics complement the overall asset allocation.

3. We understand that the proposed investment has been confirmed as appropriate by the Treasury Advisory Panel. What were the recommendations made by this panel and how have they influenced the decision to proceed with utilising the Social Security (Reserve) Fund for this proposed investment?

The Treasury Advisory Panel has agreed that the characteristics of the asset were an appropriate component of the overall Social Security Reserve Fund strategy and its asset allocation.

Observations made by TAP included the need for formalisation of the leasing arrangement between the Fund and the Government of Jersey to ensure the obligations were enforceable, this is mirrored in the planned structuring of the arrangement.

TAP considered the characteristics of all assets in the investment allocation of the Social Security Reserve Fund in order that, in combination, they meet the requirements of the Fund. An updated investment strategy, including the allocation to local infrastructure will be tabled at the next TAP following approval of the Budget, this will be subject to formal reassessment by TAP before its presentation by the Minister for Treasury and Resources to the States Assembly.

4. What factors will be considered if the Consolidated Fund decides to purchase the office in the future? How will the purchase price be determined to ensure it meets the target returns for the Social Security (Reserve) Fund?

Any future purchase by the Consolidated Fund, or any other States Fund, will primarily be based on what represents the best value for money. If interest rates reduce, as projected by the Bank of England, it may become possible to secure alternative financing (e.g. debt or a so-called 'income strip') at a lower cost than the rate of return required by the Social Security (Reserve) Fund. In such circumstances, the Fund would likely be able to secure alternative investments to generate its return, and the Consolidated Fund would be able to incur financing costs that are lower than the rent it would otherwise have to pay to the Fund. Alternative financing options will be re-appraised in 2 to 3 years when the costs of such options are better understood to ensure that the long-term financing arrangements for the Office are optimised.

The internal rate of return generated by the Fund through its investment in the Office is a product of the rental payments it receives and the residual value of the building on expiry of the 25-year lease to the Government of Jersey. If the Government of Jersey elected to purchase the Office from the Fund, the acquisition price would be calculated to ensure that the Fund achieves its target return during its period of ownership after taking into account the rental payments that it had already received.

Transform Project

5. Could you elaborate on the expected benefits of the new digital platform for managing social security benefits? How will this system improve customer service and operational efficiency?

The project has reviewed internal services to identify where there are manual or time-consuming processes that could be automated and integrated. For example, many of our online forms are not integrated with the back-end system so data has to be manually input from the eform and onto the current system, NESSIE. This means added time for processing, increased internal effort and potential for errors. The new system will aim to minimise or eliminate these, by having a rules based engine at the heart of the transform system, which in turn will increase efficiency and reduce lead times to process benefits and services.

Currently, NESSIE does not allow for direct integration with our online forms without significant customisation, upgrades and additional costs. The replacement will be more widely supported by the market and so will be able to increase Government's agility to implement changes to services, either proactively or reactively.

Other improvements to customer experiences include the digitisation of Short-Term Incapacity Benefit. Currently, Islanders are issued with physical certificates that have to

be returned to Customer and Local Services (CLS) for processing and payment. This can lead to delays and disruption, as many choose to post their certificates or not send them in until they are feeling better. Through digitisation, it is expected that the system will be able to allow for immediate transfer of data from GP surgeries to CLS, getting people the financial support they need much faster.

In creating efficiency, Transform will enable officers to spend more time assisting customers with more challenging and complex cases and also allow officers to help support islanders in more flexible and varied locations.

6. What progress has been made on the project to date and what are the key milestones for this ongoing project?

The project started with a small team that has reviewed all in-scope internal services and invested significant effort in working with teams and reviewing customer feedback to design the future service concepts, gathering detailed requirements and developing the business case. The project has expanded the team, completed market engagements and a thorough multi-stage tender exercise to ensure that proposed solutions can deliver on the requirements set out by the team.

A preferred bidder has been selected and negotiations are underway. The next key milestones will be to:

- Complete contract negotiations
- Complete the Full Business Case
- Complete Discovery and delivery of a Proof of Concept
- Delivery of Release 1

Contract negotiations are subject to commercial sensitivities; however it is expected that they will come to conclusion in the coming weeks, with completion of the Full Business Case shortly after. The completion of the Discovery and Proof of Concept is anticipated to be completed in Q1 2025, and should the outputs prove satisfactory, work will begin on Release 1, which is expected to focus on Income Support.

7. What has been the actual spend to date on this project?

From January 2021 to September 2024 the project spend has been £3.4million. A key focus during this period has been on gathering and documenting precise requirements to enable successful build and design ahead of implementation.

8. The proposed allocation of £9,899,000 for 2025 is considerably more than last year's projection of £4,046,000 for 2025 and similarly for the 2026 projections (£7,476,000 instead of £3,524,000). What is the reason for this increase?

The key factors are primarily driven by increases in both market costs and internal staff costs. The forecast for 2025 will be reevaluated following completion of commercial negotiations and the Full Business Case.

Customer and Local Services – forecast underspend for 2024

9. In response to WQ.359/2024, the Minister for Treasury and Resources provided a breakdown of departmental underspends. The underspend for the CLS Department showing as £1,791,000 as at 30th June 2024 and with this projected to be £3,711,000 by the end of 2024. The reason given for this is due to *“CLS forecasting an underspend in Income Support Weekly Benefits. This is primarily due to lower than expected earned income volumes and the timing of various ad hoc benefit payments.”*

a. What has led to the lower than expected earned income volumes contributing to the underspend in Income Support Weekly Benefits?

For clarity, the Treasury comment refers to the earned income of Income Support claimants. Income Support budgets are set in the previous year based on the best available information at the time, including the FPP forecast for the coming year and likely trends in Income Support claims. There has been a lower than expected number of Income Support claims (especially in earned income group) during 2024 and a decrease compared to previous years. This is likely to be due to a combination of factors including a full labour market and average wages rising faster than prices during the year.

b. Can you provide further details on the timing delays of ad hoc benefit payments? How has the timing of various ad hoc benefit payments impacted the department's forecasting and expenditure on Income Support?

The budgets for ad hoc payments are traditionally profiled evenly over the twelve months. However, there is no monthly trend for the ad hoc payments, and it can be difficult to predict expenditure for large one-off payments such as mesothelioma payments. Previous years expenditure is reviewed to help influence forecasts on ad hoc budgets, but these can fluctuate year to year. The forecast for ad hoc payments does not impact on the forecasting for Income Support weekly benefits.

c. What is the department doing to ensure that every household in need of financial support gets what they need?

Regular Income Support social media messaging is part of the CLS 'always on' marketing campaign, which effectively ensures that regular and frequent communication around benefits and financial support is signposted, guiding islanders to the CLS department.

Customers can access an online calculator on gov.je for an estimate of Income Support if they feel they may be entitled, after which there is an application form available online.

CLS conduct regular Closer to Home Events across various parishes around the Island (6 so far in 2024) to ensure Islanders can receive information on financial support available.

The department also completes many other outreach events with charities and various external stakeholders through the year, where benefits and financial support information is communicated.

d. Is there an expectation of similar underspends in future fiscal years, and if so, how will the department plan to address this to ensure accurate and efficient allocation of resources?

CLS will always use FPP data to help build forecasts based on economic assumptions. It is important to ensure that benefit budgets are sufficient to meet likely future demand and also allow for issues that are difficult to predict such as a very cold winter. In most years this will lead to a certain level of underspend which is returned to the Treasury at year end.

Kind regards,



Deputy Lyndsay Feltham
Minister for Social Security