

THE STATES OF DELIBERATION
of the
ISLAND OF GUERNSEY

COMMITTEE *FOR* EMPLOYMENT & SOCIAL SECURITY

SOCIAL SECURITY CONTRIBUTORY FUND ACCOUNTS 2021

The States are asked to decide:-

1. Whether they are of the opinion to note the Committee *for* Employment & Social Security's approval of the Social Security Contributory Fund Accounts for the year ending 31 December 2021.

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

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Incorporating:

Guernsey Insurance Fund

Guernsey Health Service Fund

Long-term Care Insurance Fund

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

Reports and Financial Statements

For the year ended 31 December 2021

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
For the year ended 31 December 2021

REPORTS AND FINANCIAL STATEMENTS

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SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
For the year ended 31 December 2021

PRINCIPAL OFFICERS

Committee *for* Employment & Social Security

Title	Name	Date of Election
President	Deputy P J Roffey	19 October 2020
Vice President* & Member	Deputy L De Sausmarez	21 October 2020 23 October 2020*
Member	Deputy T Bury Deputy S Falla Deputy J Gollop	21 October 2020 21 October 2020 21 October 2020
Non-Voting Member	Mr R Le Brun Mr M Thompson	18 December 2020 18 December 2020
Director of Operations	Mr E Ashton	
Committee Secretary	Mrs E Pragnell	

STATEMENT OF ACTIVITIES

Activities during the year

From January 2021, all benefits financed from the Guernsey Insurance Fund and the upper and lower earnings and income limits were increased by 2.6%. The RPIX figure for Quarter 1 2020 was used to inform this increase, rather than the Quarter 2 RPIX figure, which is normally used. This was because the 2020 General Election was delayed from April 2020 to October 2020 due to the outbreak of COVID-19, meaning that the Contributory Up-rating Policy Letter needed to be submitted before the RPIX figure for Quarter 2 had been published in order to be able to implement the changes to benefit rates and contribution limits in time for 1 January 2021. The percentage contribution rates remained unchanged in 2021.

Actuarial reviews of the Guernsey Insurance Fund and the Long-term Care Insurance Fund, for the period ending 31 December 2019, were carried out in 2020 and laid before the States of Guernsey (the “States”) as an Appendix to a Billet d’État in February 2021 ([Billet d’État V of 2021](#)). The reviews confirmed that current contribution rates are not expected to be sufficient to support the long-term financial sustainability of the Funds. In its Policy Letter entitled ‘Contributory Benefits and Contributory Rates for 2022’ ([Billet d’État XX of 2021, Article XI](#)), debated by the States on 13 October 2021, the Committee successfully proposed that:

- (i) the percentage contribution rate for employers and employees into the Guernsey Insurance Fund be increased in increments of 0.1% each per year over ten years, and for self-employed persons, and non-employed persons under pension age in increments of 0.2% per year over ten years, with effect from 1 January 2022, and
- (ii) the percentage contribution rate for employees, self-employed persons, and non-employed persons under and over pension age, into the Long-term Care Insurance Fund be increased in increments of 0.1% per year over four years, with effect from 1 January 2022.

During 2021, the Policy & Resources Committee commenced a review of taxation as a critical component of the action in the States’ Government Work Plan (Billet ‘Etat XI of 2021) to ‘Agree a sustainable tax policy’. The review addressed the question: “If it is necessary to increase revenues to the limit of the Fiscal Policy Framework (24% of GDP) to meet the cost of public services, what is the best way to achieve this?”. A Policy Letter entitled ‘The Tax Review’ ([Billet d’État XIX of 2021, Article IX](#)) set out three potential options with accompanying analysis. Two of these options included a restructured social security contributions system. Following debate, the States agreed to note the Tax Review policy letter and direct the Policy & Resources Committee, taking into account the views expressed by Members in debate, to investigate options for raising additional revenue from corporates; undertake an period of extensive consultation and engagements with States Members, the business community and wider public stakeholders; and report back to the States with detailed proposals for a restructure of the tax base and its phased implementation, by no later than July 2022.

STATEMENT OF ACTIVITIES (Continued)

The COVID-19 pandemic continued to affect some activities in 2021, but its impact in this respect was not as significant as in 2020. Some legislative changes were made to provide some additional protection to Islanders affected by the pandemic in different ways. People who met certain eligibility criteria were permitted to self-certify to receive Sickness Benefit for up to 14 days. Through [the Social Insurance \(Benefits\) \(Amendment\) Regulations, 2021](#), an additional category of person could be deemed incapable of work, where that person was an essential worker for the purposes of a direction issued under the Emergency Powers (Coronavirus) (General Provision) (Bailiwick of Guernsey) Regulations, 2021, who was requested by the Medical Officer of Health to refrain from attending their place of work (whether specifically or upon a request to self-isolate) and who could not carry out their duties when not at their place of work. The Committee also made [the Social Insurance \(Contributions\) \(Amendment\) Regulations, 2021](#), which amended [the Social Insurance \(Contributions\) Regulations, 2000](#) to award contribution credits to those classified as employed contributors on 23 January 2021 who lacked contributions on their record for the period of the second lockdown due to COVID-19 from 23 January 2021 to 21 March 2021.

A new Reciprocal Agreement on social security between the States of Guernsey and the Government of the Republic of Latvia came into force on 1 June 2021. The Agreement enables people from Latvia who have lived and worked in Guernsey but have not paid enough contributions for a minimum Guernsey pension, to get a small, part pension from Guernsey when they reach pension age. The Agreement will apply in the same way in respect of people from Guernsey who have lived and worked in the Republic of Latvia.

In August 2020, the States considered a package of proposals to address the financial sustainability of the Long-term Care Insurance Fund, as set out in the Policy Letter entitled 'Supported Living and Ageing Well Strategy: Extending the life of the Long-term Care insurance scheme' ([Billet d'État XVI of 2020, Article V](#)). The States agreed to apply an above RPIX increase to the rates of long-term care benefit and to increase the rate of the co-payment paid by residents towards the cost of their living and accommodation services to £280 per week (before inflation is applied) by January 2023. Proposals to investigate the formation of a States-run or supported scheme for deferred property loans to be made available to those seeking or receiving Long-term Care and options to moderate the increase in contributions which would otherwise be required, were rejected by the States. Proposals for how the co-payment would be increased over the two-year period to January 2023 were approved by the States on 25 March 2021 ([Billet d'État VIII of 2021, Article X](#)).

The functions of the Committee for Employment & Social Security relating to (i) health service benefits provided under the Health Service (Benefit) (Guernsey) Law, 1990, and (ii) travelling allowance grant under the Social Insurance (Guernsey) Law, 1978, transferred to the Committee for Health & Social Care on 1 June 2020 following entry into force of [the Machinery of Government \(Transfer of Functions\) Ordinance, 2020](#). Work continued in 2021 to ensure that all necessary legislative and operational changes required to wholly transfer the administration and financing of these benefits were in place by 1 January 2022.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee *for* Employment & Social Security
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STATEMENT OF ACTIVITIES (Continued)

On 25 March 2021, the States approved proposals from the Policy & Resources Committee and the Committee *for* Employment & Social Security to improve the governance of the States of Guernsey's Investment Funds, including a proposal to transfer responsibility for the management of the Common Investment Fund from the Committee *for* Employment & Social Security to the Policy & Resources Committee. [The Machinery of Government \(Transfer of Functions\) Ordinance, 2021](#), which came into operation on 15 July 2021, made provision to transfer to the Policy & Resources Committee powers of the Committee *for* Employment & Social Security in the Social Insurance (Guernsey) Law, 1978 and the Long-term Care Insurance (Guernsey) Law, 2002 to invest any monies in the Guernsey Insurance Fund and the Long-term Care Insurance Fund respectively in investments authorised by the States and the related function to delegate that power to professional fund or investment managers.

[The States Reform \(Performance of Functions\) \(Guernsey Health Service Fund\) Regulations, 2021](#) came into operation on 2 September 2021, and made provision for the investment functions of the Committee *for* Employment & Social Security relating to the monies held in the Guernsey Health Service Fund to be exercised by the Policy & Resources Committee. This arrangement was temporary until the monies in the Guernsey Health Service Fund were paid into the general revenue account of the States on 1 January 2022, as prescribed under the [Health Service Fund \(Closure and Miscellaneous Amendments\) Regulations, 2021](#). Under the [Health Service Benefit \(Amendment and Miscellaneous Provisions\) \(Guernsey\) Law, 2021](#), these monies within the general revenue account are referred to as the Guernsey Health Reserve.

Work continued on the implementation of a Secondary Pensions Scheme for Guernsey and, subject to approval by the States of Alderney, Alderney. Proposals for a scheme, called Your Island Pension ("YIP"), to be established by January 2022, were approved by the States in February 2020 ([Billet d'État IV of 2020, Article II](#)). However, during 2021 the Committee decided to delay the launch of YIP to January 2023 due to the effect of the pandemic on the project timeline. In late 2021, the chosen scheme provider, Smart Pensions Ltd., withdrew their bid to provide the administration of YIP as it was no longer possible for the company to proceed on the basis of the terms set out in their tender and approved by the States due to changes in the commercial landscape in which the company was operating. In late November 2021, the Committee issued a tender to identify a local pension provider to operate YIP on an entirely bundled basis, to include trusteeship, administration services and investment management.

STATEMENT OF ACTIVITIES (Continued)

Work on the Revenue Service Programme continued throughout 2021. The Programme copied over 250,000 customer contact records, their contribution records and their life events into a new Dynamics platform, enabling the creation of the States Register of Contact Details and the pilot of the new States of Guernsey online portal MyGov. Change of address and other key data is synchronised between the new and the old legacy systems. The delivery of a current year basis of assessment for self-employed and non-employed individuals was enabled through the new Dynamics platform as was the issuing of the contribution assessment letters. Significant analysis of contributions case management has occurred ready for the development team to enact.

Future activities

The Committee will continue to work closely with the Policy & Resources Committee in the development of detailed proposals to restructure the social security contributions system as part of wider proposals to restructure the tax base.

The rate of the Long-term Care co-payment will be increased further, in line with the aforementioned plan to set its value at £280 per week (before inflation is applied) by January 2023. Further work is required to explore solutions to ensure the sustainability of the Long-term Care Insurance Fund and the care sector more widely.

In March 2022 the Committee announced that Sovereign Pension Services (CI) Limited was selected as the preferred bidder to provide the new secondary pensions scheme, following tender a tender process. The Committee will continue to progress work to implement YIP, including liaison with the States of Alderney regarding extension of the scheme to Alderney, agreement of contractual terms with the preferred provider, approval of the necessary legislation, engagement with employers, etc.

The forward view of the Revenue Service Programme forecasts two main challenges to the timely completion of works; timely availability of expertise to enable Curam to interface to the new Dynamics platform, which is critical as the benefits team must be able to see the contributions data; and, access to sufficient experienced development expertise due to Covid priorities previously impacting the speed of delivery. Both are likely to extend the programme timescales and costs.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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STATEMENT OF PERFORMANCE

Overview

The Social Security Contributory Funds comprising the Guernsey Insurance Fund (GIF), Guernsey Health Service Fund (GHSF) and Long-term Care Insurance Fund (LTCIF) recorded a combined operating deficit of £32.9m (2020: £32.7m deficit). A change in accounting policy has been adopted, recognising the full value of contributions receivable and the 2020 comparatives have been restated in the Statement of Performance. Further details can be found in Note 19.

A breakdown of the operating results is as follows:

- GIF: operating deficit of £31.6m (2020: £34.7m deficit).
- GHSF: operating deficit of £7.4m (2020: £5.2m deficit).
- LTCIF: operating surplus of £6.1m (2020: £7.2m surplus).

Total Reserves for the year increased by £66.3m (2020: £36.8m decrease). This increase is comprised of the operating deficit of £32.9m (2020: £32.7m deficit) and an increase from investing activities of £99.2m (2020: £4.1m decrease). The increase in Reserves is allocated as follows:

- GIF: +£44.2m (2020: -£38.3m) and is comprised of the operating deficit of £31.6m (2020: £34.7m deficit) and increase from investing activities of £75.8m (2020: £3.6m decrease);
- GHSF: +£4.7m (2020: -£5.8m) and is comprised of the operating deficit of £7.4m (2020: £5.2m deficit) and increase from investing activities of £12.1m (2020: £0.6m decrease);
- LTCIF: +£17.4m (2020: +£7.2m) and is comprised of the operating surplus of £6.1m (2020: £7.2m surplus) and increase from investing activities of £11.3m (2020: £0.0m).

At the year-end total reserves stood at £988.0m (2020: £921.7m) and allocated as follows:

- GIF: £749.4m (2020: £705.3m) providing expenditure cover of 4.5 years (2020: 4.4 years);
- GHSF: £120.2m (2020: £115.4m) providing expenditure cover of 2.4 years (2020: 2.5 years); and
- LTCIF: £118.4m (2020: £101.0m) providing expenditure cover of 4.1 years (2020: 4.9 years).

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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STATEMENT OF PERFORMANCE (CONTINUED)

Contribution income and states grant

Total contribution income increased by 5.8% to £190.9m (2020: -2.2% to £180.5m). The increase is attributed mainly to employed persons, which saw an increase of 6.4% to £166.4m (2020: -0.6% to £156.4m). Self-employed contributions also saw an increase of 6.8% to £15.5m (2020: -13.5% to £14.5m), and non-employed persons decreased by 12.2% to £8.3m (2020: -4.6% to £9.5m). The overall increase in contributions received in comparison to 2020 is a direct result of improvement in economic conditions since the lockdown measures and subsequent restrictions put in place in 2020.

Numbers of Contributors as at week 48	2021	2020	5-Year average
Employers	2,354	2,304	2,324
Employed	29,094	28,825	29,043
Self-Employed	3,011	3,020	3,039
Non-Employed	5,948	6,153	5,968
Total Contributors (excluding employers)	38,053	37,998	38,050

The overall number of contributors, at week 48, increased by 0.1% to 38,053 (2020: 37,998). The number of employed increased by 0.9% (2020: -1.6%) while self-employed decreased by 0.3% (2020: +0.2%), and non-employed contributors decreased by 3.3% (2020: +2.4%). The largest economic sector remained the financial sector, which accounted for 19% (2020: 20%) of the employed population and represented 27% (2020: 28%) of the total income received from employers and employees.

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

- GIF: +6.2% to £118.2m (2020: -2.4% to £111.3m). The grant received from the States of Guernsey, being a fixed percentage of contributions (14.7%), increased to £17.3m (2020: £16.3m);
- GHSF: +5.4% to £43.5m (2020: -2.2% to £41.3m); and
- LTCIF: +4.6% to £29.3m (2020: -1.5% to £28.0m).

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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

Benefit expenditure

Overall benefit expenditure increased by 5.2% to £235.0m (2020: +4.1% to £223.4m). The great majority of benefits are not discretionary and their entitlement is in accordance with law. The general rate of benefit was increased by 2.6% (2020: 2.4%). The allocation between the Funds is as follows:

- GIF: +3.2% to £163.0m (2020: +4.7% to £157.9m);
- GHSF: +9.2% to £49.2m (2020: +3.6% to £45.1m); and
- LTCIF: +11.1% to £22.7m (2020: +0.2% to £20.4m).

Details of major areas of benefit expenditure follow:

GIF: Pension	2021	2020	5-Year Average
Number of claimants at the year-end	18,733	18,692	18,425
Number of approved claims during the year	854	826	935

Pension expenditure accounts for 85% of the total benefit expenditure of GIF and for the year increased by 3.3% to £138.4m (2020: +4.0% to £133.9m). The single rate of old age pension and the addition in pension in respect of a dependant wife both increased by 2.6% (2020: 2.4%).

GIF: Incapacity benefit	2021	2020	5-Year Average
Number of claimants at the year-end	963	960	903
Number of approved claims during the year	255	413	361

Incapacity benefit increased by 9.0% to £10.3m (2020: +7.2% £9.5m). During the pandemic, access to off-island medical treatment has been severely reduced, leading to people waiting longer for treatment. In addition, programmes to support people back to work had ceased during lockdown, however the Committee is working on a number of back-to-work initiatives to move more people off benefit into work, including the long-term sick.

GIF: Unemployment benefit	2021	2020	5-Year Average
Number of claimants at the year-end	79	186	133
Number of approved claims during the year	512	1,012	171

Unemployment benefit decreased substantially by 54.3% to £1.0m (2020: +125.9% to £2.1m). The number of approved claims increased due to lockdown in 2020, and claim numbers remained higher than the 5-year average by the end of the year. Claims reduced considerably during the year, and at the end of 2021 are below pre-pandemic levels. The Committee continues to work on back-to-work initiatives to assist those seeking work.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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STATEMENT OF PERFORMANCE (CONTINUED)

Benefit expenditure (continued)

GHSF: Specialist Health Insurance Scheme	2021	2020	5-Year Average
Medical Specialist Group <i>full-time equivalent consultants (average)</i>	51.0	50.6	48.4
Guernsey Therapy Group <i>full-time equivalent physiotherapists & assistants (average)</i>	42.8	39.5	38.6

Medical specialist expenditure increased by 0.9% to £20.1m (2020: +6.6% to £19.9m) with the average number of consultants increasing by 0.4 for the year.

The Physiotherapy expenditure increased by 7.0% to £2.8m (2020: +5.7% to £2.6m), with the average number of therapists increasing by 3.4.

The Alderney contract decreased to £255k (2020: £310k), however Alderney doctors are still providing additional support.

GHSF: Drugs and medicines	2021	2020	5-Year Average
Total number of prescriptions	1,601,445	1,549,841	1,543,773
Average basic cost per item	£12.43	£9.99	£10.04

For the year, overall net expenditure in respect of drugs and medicines, after prescription charges, increased by 19.7% to £21.1m (2020: +1.0% to £17.7m). New drugs to the White List continue to be well controlled, however the number of items dispensed has increased in comparison to the previous year by 3.3%. In addition, the basic drug costs have increased by 15.3% (2020: +4.6%).

LTCIF: Residential Home Care grant	2021	2020	5-Year Average
Number of claimants at year-end - Permanent	235	245	255
Number of claimants at year-end - Permanent with EMI	144	133	132
Total	379	378	387
12-month rolling average	389	371	391

Residential Home Care benefit expenditure increased by 14.1% to £11.9m (2020: -2.7% to £10.4m) and saw the 12-month rolling average in active claims increase by 5.0%.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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STATEMENT OF PERFORMANCE (CONTINUED)

Benefit expenditure (continued)

LTCIF: Nursing Home Care grant	2021	2020	5-Year Average
Number of claimants at the year-end	215	223	211
12-month rolling average	220	213	216

Nursing Home Care benefit expenditure increased by 8.0% to £10.9m (2020: +3.5% to £10.1m), as a result of an increase in benefit rates for the year, and an increase in the 12 month average number of claims during the year.

The overall rates for long-term care had substantially increased from October 2020, following the approval by the States of 'Supported Living and Ageing Well Strategy: Extending the life of the Long-term Care insurance scheme' ([Billet d'État XVI of 2020, Article V](#)). The States agreed to apply an above RPIX increase to the rates of long-term care benefit and to increase the rate of the co-payment paid by residents towards the cost of their living and accommodation services.

Administration

Total administration expenditure for the year was £8.0m (2020: £8.1m) with the recharge of administrative expenditure to Non-Contributory Services ("NCS") being £1.9m (2020: £2.1m). Overall staffing costs decreased by 5.4% to £3.8m (2020: £4.0m).

Full-time Equivalent Staff	2021	2020
Total employed directly	77.1	91.1
Staff recharged to General Revenue	(28.7)	(41.9)
Contributory Funds Allocation	48.4	49.2

The Committee's total full-time equivalent ("FTE") staff numbers in 2021 was 119.7 (2020: 136.3) with 42.6 FTEs (2020: 45.1) paid directly from General Revenue and therefore excluded from the above analysis.

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

- GIF: -6.8% to £4.0m (2020: -0.5% to £4.3m);
- GHSF: +20.6% to £1.7m (2020: -4.5% to £1.4m); and
- LTCIF: +12.9% at £0.4m (2020: -16.0% at £0.4m).

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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STATEMENT OF PERFORMANCE (CONTINUED)

Investment Funds

The investment portfolios of the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-term Care Insurance Fund are combined to form the Common Investment Fund which at 31 December 2021 had a market value of £945.9m (2020: £883.8m).

As the Guernsey Insurance Fund and Guernsey Health Service Fund are currently running operating deficits, £37.0m (2020: £40.1m) was withdrawn from the Common Investment Fund during the year for cash flow to meet obligations. The allocation between the three contributory funds at the year-end is as follows:

Common Investment Fund allocation At Year-end	2021		2020	
	£'000s	%	£'000s	%
Guernsey Insurance Fund	717,674	75.9%	677,460	76.6%
Guernsey Health Service Fund	114,956	12.1%	110,090	12.5%
Long-term Care Insurance Fund	113,312	12.0%	96,271	10.9%
Total	945,942	100.0%	883,821	100.0%

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

Common Investment Fund (CIF) Investment Performance	% CIF return per annum	% Target Return per annum *
1-Year	11.45%	3.40%
3-Year	6.14%	4.10%
5-Year	4.44%	4.10%

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

Key Statistics

Contribution Rates – Annual earnings/income limits	2021 £	2020 £	2019 £	2018 £	2017 £
<i>Class 1 Employed</i>					
Upper earnings limit	153,660	149,760	146,328	142,896	138,684
Lower earnings limit	7,696	7,488	7,332	6,968	6,968
<i>Class 2 Self-employed</i>					
Upper earnings limit	153,660	149,760	146,328	142,896	138,684
Lower earnings limit	7,696	7,488	7,332	7,176	6,968
<i>Class 3 Non-employed</i>					
Maximum income	153,660	149,760	146,328	142,896	138,684
Minimum income	19,240	18,720	18,330	17,940	17,420
Allowance	8,695	8,460	8,285	8,110	7,875

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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STATEMENT OF PERFORMANCE (CONTINUED)

Key Statistics (Continued)

Contribution Rates – Contributory Funds	2021 %	2020 %	2019 %	2018 %	2017 %
<i>Class 1 Employer</i>					
Guernsey Insurance Fund	5.0	5.0	5.0	5.0	5.0
Guernsey Health Service Fund	1.6	1.6	1.6	1.6	1.6
Long-term Care Insurance Fund	-	-	-	-	-
	6.6	6.6	6.6	6.6	6.6
<i>Employee</i>					
Guernsey Insurance Fund	3.5	3.5	3.5	3.5	3.5
Guernsey Health Service Fund	1.3	1.3	1.3	1.3	1.3
Long-term Care Insurance Fund	1.8	1.8	1.8	1.8	1.8
	6.6	6.6	6.6	6.6	6.6
<i>Combined</i>					
Guernsey Insurance Fund	8.5	8.5	8.5	8.5	8.5
Guernsey Health Service Fund	2.9	2.9	2.9	2.9	2.9
Long-term Care Insurance Fund	1.8	1.8	1.8	1.8	1.8
	13.2	13.2	13.2	13.2	13.2
<i>Class 2 Self-employed</i>					
Guernsey Insurance Fund	6.5	6.5	6.5	6.5	6.5
Guernsey Health Service Fund	2.7	2.7	2.7	2.7	2.7
Long-term Care Insurance Fund	1.8	1.8	1.8	1.8	1.8
	11.0	11.0	11.0	11.0	11.0
<i>Class 3 Non-employed (under 65)</i>					
Guernsey Insurance Fund	5.7	5.7	5.7	5.7	5.7
Guernsey Health Service Fund	2.8	2.8	2.8	2.8	2.8
Long-term Care Insurance Fund	1.9	1.9	1.9	1.9	1.9
	10.4	10.4	10.4	10.4	10.4
<i>Non-employed (over 65)</i>					
Guernsey Insurance Fund	-	-	-	-	-
Guernsey Health Service Fund	1.3	1.3	1.3	1.3	1.3
Long-term Care Insurance Fund	2.1	2.1	2.1	2.1	2.1
	3.4	3.4	3.4	3.4	3.4

Number of contributors (as at week 48*)	2021	2020	2019	2018	2017
Employers	2,354	2,304	2,306	2,325	2,333
Employed	29,094	28,825	29,281	29,106	28,909
Self-employed	3,011	3,020	3,014	3,044	3,108
Non-employed	5,948	6,153	6,010	5,946	5,783
Total Contributors	38,053	37,998	38,305	38,096	37,800

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

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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

Key Statistics (Continued)

Contributory Funds - General Revenue Grants - % of contributions	2021 %	2020 %	2019 %	2018 %	2017 %
Guernsey Insurance Fund	14.7%	14.7%	14.7%	14.7%	14.7%
	£m	£m	£m	£m	£m
Guernsey Insurance Fund	17.3	16.3	16.7	16.1	15.7
Total	17.3	16.3	16.7	16.1	15.7

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

GIF: No. of claimants at the year-end	2021	2020	2019	2018	2017
Pension	18,733	18,692	18,508	18,229	17,964
Incapacity Benefit	963	960	872	865	856
Sickness Benefit	479	505	493	424	400
Bereavement Benefits	146	139	157	159	200
Unemployment Benefit	79	186	150	107	153
Industrial Disablement Benefit	154	159	163	162	165
Industrial Injury Benefit	11	25	21	22	12
Parental Benefit Allowances *	191	180	198	197	n/a
Total*	20,756	20,846	20,562	20,165	19,750

GIF: No. of approved claims during the year	2021	2020	2019	2018	2017
Sickness Benefit	9,029	9,024	10,569	10,866	9,748
Pension	854	826	940	999	1,056
Unemployment Benefit	512	1,012	642	627	790
Industrial Medical Benefit	757	768	979	909	795
Travelling Allowance Grant	640	580	945	953	923
Death Grant	638	616	620	619	681
Industrial Injury Benefit	453	426	555	487	342
Bereavement Benefits	343	327	360	338	345
Incapacity Benefit	255	356	309	394	333
Industrial Disablement Benefit	7	9	7	11	5
Parental Benefit Allowances*	495	448	523	420	n/a
Parental Grants*	433	509	460	502	n/a
Total*	14,416	14,901	16,909	17,125	15,018

** Following the introduction of improved parental benefits in 2017, a separate analysis of parental allowances and parental grants is unavailable for that year, and has therefore been excluded from the total for 2017.*

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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

Key Statistics (continued)

GHSF: Drugs & medicines	2021	2020	2019	2018	2017
Ordinary prescriptions	559,536	532,716	529,897	530,091	536,170
% change	+5.0%	+0.5%	-0.0%	-1.1%	-3.0%
Exempt prescriptions	1,041,909	1,017,125	1,002,672	993,828	974,923
% change	+2.4%	+1.4%	+0.9%	+1.9%	+0.1%
Total prescriptions	1,601,445	1,549,841	1,532,569	1,523,919	1,511,093
% change	+3.3%	+1.1%	+0.6%	+0.8%	-1.0%
Average basic cost	£11.52	£9.99	£9.55	£9.31	£8.93
% change	+15.3%	+4.6%	+2.6%	+4.3%	-0.7%
Ordinary prescriptions (% of total)	34.9%	34.4%	34.6%	34.8%	35.5%
Exempt prescriptions (% of total)	65.1%	65.6%	65.4%	65.2%	64.5%

GHSF: Consultation grants	2021	2020	2019	2018	2017
Doctors	240,936	228,792	228,529	242,960	236,477
% change	+5.3%	+0.1%	-5.9%	+2.7%	-2.2%
Nurses	93,538	81,856	77,251	78,917	77,401
% change	+14.3%	+6.0%	-2.1%	+2.0%	+0.1%
Total	334,474	310,648	305,780	321,877	313,878
% change	+7.7%	+1.6%	-5.0%	+2.5%	-1.6%

LTCIF: Number of claimants at year-end	2021	2020	2019	2018	2017
Residential & EMI grant-permanent	379	378	385	392	404
Nursing grant-permanent	215	223	209	205	202
TOTAL	594	601	594	597	606

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STATEMENT OF PERFORMANCE (CONTINUED)

GIF: 5-Year Financial Performance	2021	2020	*2019	*2018	*2017
	£m	£m	£m	£m	£m
		Restated			
Income	135.4	127.6	130.6	125.9	122.3
Expenditure	(167.1)	(162.2)	(155.1)	(149.5)	(141.7)
Operating deficit	(31.7)	(34.7)	(24.5)	(23.6)	(19.5)
Investing activities	75.8	(3.6)	52.8	(33.1)	57.6
Net surplus/(deficit) during the year	44.1	(38.2)	28.3	(56.8)	38.0
Net assets of the Fund at 1 January	705.3	743.5	712.5	769.3	731.2
Net assets as at 31 December	749.4	705.3	740.8	712.5	769.3
Expenditure cover in number of years	4.5	4.4	4.8	4.8	5.4

GHSF: 5-Year Financial Performance	2021	2020	*2019	*2018	*2017
	£m	£m	£m	£m	£m
		Restated			
Income	43.5	41.3	42.1	41.0	39.5
Expenditure	(50.9)	(46.5)	(45.0)	(43.8)	(42.5)
Operating deficit	(7.4)	(5.2)	(2.9)	(2.8)	(3.0)
Investing activities	12.2	(0.6)	8.5	(5.3)	9.1
Net surplus/(deficit) during the year	4.8	(5.8)	5.6	(8.1)	6.1
Net assets at 1 January	115.4	121.2	114.4	122.5	116.4
Net assets at 31 December	120.2	115.4	120.0	114.4	122.5
Expenditure cover in number of years	2.4	2.5	2.7	2.6	2.9

LTCIF: 5-Year Financial Performance	2021	2020	*2019	*2018	*2017
	£m	£m	£m	£m	£m
		Restated			
Income	29.2	28.0	28.2	28.0	26.6
Expenditure	(23.1)	(20.8)	(20.8)	(19.9)	(19.7)
Operating surplus	6.1	7.2	7.4	8.1	6.9
Investing activities	11.3	-	6.1	(3.9)	5.2
Net surplus during the year	17.4	7.2	13.5	4.2	12.1
Net assets at 1 January	101.0	93.8	79.2	75.0	62.9
Net assets at 31 December	118.4	101.0	92.7	79.2	75.0
Expenditure cover in number of years	5.1	4.9	4.5	4.0	3.8

* A separate analysis of the change in accounting policy has not been included for the years 2017-2019 in the above tables, and therefore these years have not been restated.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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STATEMENT OF RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS

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

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

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

GOING CONCERN

The Committee members and principal officers have reviewed the budget and projected income and expenses over the next twelve months, including the available expenditure cover. Following review, it is considered that each of the Contributory Funds have adequate financial resources and expenditure cover to meet its obligations. Each of the Contributory Funds is therefore deemed to be a going concern.

STATEMENT OF INTERNAL CONTROLS

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

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

The Committee’s internal financial procedures include:

- an annual budget and planning process to allocate, control and monitor the use of resources;
- a requirement to table at a meeting of the Committee;
 - the annual audit report together with the audited financial statements;
 - the annual report of observations and recommendations produced by the external auditor;
 - the annual policy and resource plan; and
 - the quarterly management accounts relating to financial performance;

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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- by Law, an actuarial review to determine the adequacy of the contribution rates must be undertaken at least once every five years and submitted to the Committee and the States of Guernsey;
- a regular review of the performance and security of the Contributory Funds by the Committee;
- occasional review and appraisal of the soundness, adequacy and application of internal controls by the States Internal Audit Unit; and
- a requirement for internal audit reports to be tabled at a meeting of the Committee.

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

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

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

Opinion

We have audited the financial statements of States of Guernsey Social Security – Contributory Funds (“the Contributory Funds”) for the year ended 31 December 2021 which comprise the Aggregated Fund Account, the Aggregated Statement of Financial Position, the Aggregated Statement of Cash Flows, and notes to the financial statements, including a summary of significant accounting policies.

- In our opinion, the financial statements of the Contributory Funds for the year ended 31 December 2021 are properly prepared, in all material respects, in accordance with the accounting policies stated in note 1 to the financial statements.

Basis for opinion

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

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

We draw attention to note 1 to the financial statements, which describes the basis of accounting. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the States of Guernsey – Committee for Employment & Social Security (“the Committee”) and should not be distributed to or used by parties other than the Committee. Our opinion is not modified in respect of this matter.

Who we are reporting to

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

Other information

The Committee are responsible for the other information. The other information comprises the information included in the Statement of Activities, Statement of Performance, Statement of Responsibilities for the Preparation of Financial Statements and Statement of internal controls and going concern other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Matters on which we are required to report by exception

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

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

Responsibilities of Committee for the financial statements

As explained more fully in the Committee for Employment & Social Security ' responsibilities statement set out on page 17 , the Committee are responsible for the preparation of the financial statements which give a true and fair view in accordance with FRS 102, and for such internal control as the Committee determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Grant Thornton Limited
Chartered Accountants
St Peter Port
Guernsey

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2021

AGGREGATED FUND ACCOUNT

	Note	2021 £'000s	2020 Restated £'000s
Income			
Contributions	1(c),2	190,930	180,507
States grant	1(c)	17,317	16,354
		208,247	196,861
Expenditure			
Benefits payable	1(d),3	234,983	223,406
Administration	7	6,134	6,087
		241,117	229,493
Operating deficit before depreciation charge		(32,870)	(32,632)
Depreciation charge	9	(73)	(80)
Operating deficit		(32,943)	(32,712)
Investment returns	1(h),8	99,271	(4,130)
Net surplus/(deficit)		66,328	(36,842)
Net assets at 1 January		921,652	958,494
Net assets at 31 December		987,980	921,652

All activities are derived from continuing operations.

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

Notes 1 to 20 form an integral part of these financial statements.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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AGGREGATED STATEMENT OF FINANCIAL POSITION

	Note	31.12.21 £'000s	31.12.20 Restated £'000s
Non-current assets			
Tangible assets	9	8,039	6,423
Common Investment Fund at Fair Value	10	945,942	883,821
Debtors due after one year	11	85	100
		954,066	890,344
Current assets			
Debtors due within one year	12	40,818	37,753
Cash and cash equivalents		278	390
		41,096	38,143
Current liabilities			
Creditors: Amounts falling due within one year	13	2,951	3,785
Bank overdraft		4,231	3,050
		7,182	6,835
Net current assets		33,914	31,308
Total net assets		987,980	921,652
Reserves			
Guernsey Insurance Fund		749,414	705,251
Guernsey Health Service Fund		120,159	115,437
Long-term Care Insurance Fund		118,407	100,964
		987,980	921,652

The financial statements were approved by the Committee *for* Employment & Social Security on 18 May 2022.

Signed on behalf of the Committee

P Roffey
President

E Ashton
Director of Operations

Notes 1 to 20 form an integral part of these financial statements.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
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AGGREGATED STATEMENT OF CASH FLOWS

	Note	2021 £'000s	2020 Restated £'000s
Cash flows from operating activities			
Operating deficit for the year		(32,943)	(32,712)
<i>Adjustments for:</i>			
Tangible asset acquisitions during the year		(1,690)	(1,157)
Depreciation		73	80
(Increase)/decrease in debtors		(3,050)	3,135
(Decrease)/increase in creditors		(834)	691
Net cash used in operating activities		(38,444)	(29,963)
Cash flows from investing activities			
Increase/(decrease) in cash equivalents in financial instruments	8	99,271	(4,130)
Net cash from/(used in) investing activities		99,271	(4,130)
Net increase/(decrease) in cash and cash equivalents (including investments)		60,827	(34,093)
Financial instruments, treasury, cash balances and overdraft at 1 January		881,161	915,254
Financial instruments, treasury, cash balances and overdraft at 31 December		941,988	881,161

ANALYSIS AND RECONCILIATION OF NET FUNDS	At 1.1.21 £'000s	Increase/ (decrease) £'000s	At 31.12.21 £'000s
Cash at bank and in hand	390	(112)	278
Overdraft	(3,050)	(1,182)	(4,232)
	(2,660)	(1,294)	(3,954)
Financial instruments	883,821	62,121	945,942
	881,161	60,827	941,988

The cashflow statement includes investments held at fair value through profit or loss, which are considered as part of the net funds, and as such any unrealised movement in valuation.

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

Notes 1 to 20 form an integral part of these financial statements.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

Controlled and managed by the States of Guernsey – Committee for Employment & Social Security
For the year ended 31 December 2021

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

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

a) Accounting convention

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

b) Going Concern

The Committee members and principal officers have reviewed the budget and projected income and expenses over the next twelve months, including the available expenditure cover. Following review, it is considered that each of the Contributory Funds have adequate financial resources and liquidity to continue to meet its obligations. Each of the Contributory Funds is therefore deemed to be a going concern.

c) Contributions & States grant – change in accounting policy

A change in the accounting policy with respect to Contribution income has been adopted retrospectively, see Note 19 for details. Contributions are recognised as they fall due, however, some elements of that Contribution income can only be confirmed in subsequent years and therefore consideration is given to future cash flows that may arise from assessments relating to the reporting period (and earlier), as well as levels of recoverability.

The grants received from the States of Guernsey are based on a fixed percentage of contributions, accounted for in the relevant period and for 2021 was 14.7% (2020: 14.7%) in respect of the Guernsey Insurance Fund.

d) Benefits payable

Benefits are accounted for on an accruals basis.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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

1. ACCOUNTING POLICIES (continued)

e) Actuarial Review

The financial statements summarise the transactions of the Contributory Funds and report the net assets at the disposal of the Fund. They do not take account of obligations to pay benefits which fall due after the end of the financial year. The adequacy of the Contributory Funds is, however, subject to actuarial review at least once every five years to determine the adequacy of contribution rates. A review of the five year period 2015 to 2019 for the Guernsey Insurance Fund and the Long-Term Care Insurance Fund was undertaken in 2020 and the results published in the 2021 Billet d'Etat V.

f) Tangible fixed assets

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

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

g) Common Investment Fund

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

h) Financial instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

Financial assets and liabilities

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

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

Investments

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

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

- Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager at or before year end.
- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated, through consultation with its advisors and the Custodian, and reported to the Policy & Resources Committee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at the value, in which case adjustment is made.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

Investments

- Exchange traded futures are valued at the difference between exchange settlement prices and inception prices.
- Swaps are valued at the net present value of future cash flows arising therefrom.
- Over the counter options are valued by the investment manager using generally accepted pricing models such as Black Scholes, where inputs are based on market data at the year-end date.
- Forward exchange contracts are valued at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- Partnership investments are valued on the basis of the latest available net asset value if it is within one month prior to the year-end or where there has been a significant investment in the partnership subsequent to the latest valuation, to estimate the fair value of the partnership by using the price at which the amount of any significant investments is made.

Security Lending

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

Capital movements – Realised and unrealised

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

h) Financial instruments (continued)

Derivatives

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

Other assets

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

Cash and cash equivalents

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

De-recognition of basic financial instruments

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

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

i) Foreign Currency

Functional and presentational currency

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

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (continued)

j) Pension costs

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

k) Critical accounting judgements and estimates

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

The valuation date of each fund may not always be co-terminus with the valuation date of the Contributory Funds, and in such cases, the valuation of the fund as at the last valuation date of the fund is used i.e. the latest available price is used on the valuation date. The net asset values reported by the relevant fund manager or administrator and used by the Policy & Resources Committee as at 31 December 2021 may be unaudited as at that date and may differ from the amounts which would have been realised from a redemption of the investment in the relevant fund as at 31 December 2021. However, it is the belief of the Investment Manager and the Policy & Resources Committee that the latest available net asset value used on the valuation date will not be materially different from the net asset value used to realise these investments held at 31 December 2021, and the Policy & Resources Committee would be notified of any material changes to net asset values by the Investment Manager and the Custodian.

2. CONTRIBUTIONS

	2021 £'000s	2020 Restated £'000s
Employer contributions	83,601	78,646
Employee contributions	82,789	77,764
	166,390	156,410
Self-employed contributions	15,477	14,488
Non-employed contributions	8,338	9,500
Employer surcharge and penalty	3	37
Movement in contributions unallocated	722	72
	190,930	180,507
Contribution income allocated to:		
Guernsey Insurance Fund	118,166	111,251
Guernsey Health Service Fund	43,492	41,261
Long-term Care Insurance Fund	29,272	27,995
	190,930	180,507

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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

	Note	2021	2020
		£'000s	£'000s
Guernsey Insurance Fund	4	163,041	157,889
Guernsey Health Service Fund	5	49,224	45,066
Long-term Care Insurance Fund	6	22,718	20,451
		234,983	223,406

4. BENEFITS PAYABLE: GUERNSEY INSURANCE FUND

	Note	2021	2020
		£'000s	£'000s
Pension		138,355	133,930
Incapacity		10,324	9,475
Sickness		4,692	4,683
Bereavement		1,480	1,337
Travelling allowance grant		3,337	2,527
Unemployment		971	2,123
Parental		2,547	2,566
Industrial disablement		534	535
Industrial injury		270	249
Death grant		391	364
Industrial medical		128	113
		163,029	157,902
Doubtful debt provision - movement		12	(13)
	3	163,041	157,889

5. BENEFITS PAYABLE: GUERNSEY HEALTH SERVICE FUND

	Note	2021	2020
		£'000s	£'000s
Drugs and medicines	5(a)	21,148	17,675
Specialist Health Insurance Scheme	5(b)	23,127	22,822
Consultation grants	5(c)	3,452	3,236
Visiting medical consultants		881	771
Healthy Minds		526	465
Under 21 Contraception		90	97
	3	49,224	45,066

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**5(a). DRUGS AND MEDICINES**

Note	2021 £'000s	2020 £'000s
Drugs and medicines	21,722	18,478
Appliances	1,227	975
Oxygen Service	474	413
	23,423	19,866
Prescription charges receivable	(2,275)	(2,191)
5	21,148	17,675

5(b). SPECIALIST HEALTH INSURANCE SCHEME

Note	2021 £'000s	2020 £'000s
Specialist medical benefit	20,060	19,885
Physiotherapy benefit	2,812	2,627
Alderney hospital benefit	255	310
5	23,127	22,822

Under the contract between the States and the Medical Specialist Group, the States acts through the Committee *for* Health & Social Care only, with involvement from the Committee *for* Employment & Social Security limited to the provision of funding. Key Performance Indicators have been included in the contract to enable the service to be monitored closely, with results published annually.

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

5(c). CONSULTATION GRANTS

Note	2021 £'000s	2020 £'000s
Doctor consultation grants	2,891	2,745
Nurse consultation grants	561	491
5	3,452	3,236

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. BENEFITS PAYABLE: LONG-TERM CARE INSURANCE FUND

Note	2021 £'000s	2020 £'000s
Residential home care benefit		
Permanent	6,646	5,987
Permanent with EMI supplement	5,121	4,302
Respite care	68	72
Respite care with EMI supplement	29	39
	11,864	10,400
Nursing home care benefit		
Permanent	10,822	10,005
Respite care	32	46
	10,854	10,051
3	22,718	20,451

7. ADMINISTRATION

	2021 £'000s	2020 £'000s
Salaries and pension costs	3,822	4,039
Other staff costs	2	5
IT and communication	13	48
Consultancy and contracted out work	1,676	1,532
Administration	207	224
Premises	179	205
Health & Social Services Committee	400	370
Policy & Resources Committee charges	1,546	1,549
Supplies and Services	117	107
Audit fee	58	55
	8,020	8,134
Amounts received from General Revenue	(1,886)	(2,047)
	6,134	6,087
Administration expenses allocated to:		
Guernsey Insurance Fund	4,019	4,311
Guernsey Health Service Fund	1,712	1,419
Long-term Care Insurance Fund	403	357
	6,134	6,087

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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

	2021	2020
	£'000s	£'000s
Income		
Interest from fixed interest securities	3,944	3,372
Interest on short term deposits and bank interest	138	660
	4,082	4,032
Expenditure		
Investment managers' fees & adjustments	(77)	228
Investment advisor's fees	192	192
Custody fees	35	34
Performance monitoring fees	26	27
Policy & Resources Committee charges	69	69
	245	550
Net investment income	3,837	3,482
Realised gain on disposal	13,513	2,242
Movement on unrealised gain	81,921	(9,854)
Total (deficit)/surplus for the year	99,271	(4,130)
Investing activities allocated to:		
Guernsey Insurance Fund	75,813	(3,584)
Guernsey Health Service Fund	12,166	(557)
Long-term Care Insurance Fund	11,292	11
	99,271	(4,130)

Investment managers' fees & adjustments relate to fees paid directly by the contributory fund and rebates on fees paid within pooled investment vehicles, where the full fees and expenses are charged directly to the investment, and not included in the above.

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**9. TANGIBLE ASSETS**

	1.1.2021	Additions	31.12.2021
	£'000s	£'000s	£'000s
Cost			
Freehold land and buildings	4,306	4	4,310
Plant and equipment	1,144	29	1,173
Information technology	9,359	-	9,359
Information technology in development	3,525	1,658	5,183
	18,334	1,691	20,025
	1.1.2021	Depreciation	31.12.2021
	£'000s	£'000s	£'000s
Accumulated Depreciation			
Freehold land and buildings	1,559	53	1,612
Plant and equipment	995	20	1,015
Information technology	9,359	-	9,359
	11,913	73	11,986
Net book value	6,421		8,039

Information technology in development includes the Revenue Service Project under development to replace the current legacy Contributions system. Development remains in progress, and the asset is not yet in use, and therefore no depreciation is currently being charged.

The Committee has reviewed fixed assets for evidence of impairment and no adjustment has been made to the carrying value of tangible fixed assets (2020: £Nil).

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS

Common Investment Fund (CIF) at Fair Value	31.12.2021	31.12.2020
	£'000s	£'000s
Equities and derivatives	209,307	186,762
Alternative investments and hedge funds	282,044	239,500
Cash and cash equivalents	29,345	29,102
Fixed income and derivatives	342,542	361,350
Venture Capital & Partnerships	73,786	60,615
Property funds	8,918	6,492
	945,942	883,821
Investments allocated to:		
Guernsey Insurance Fund	717,674	677,460
Guernsey Health Service Fund	114,956	110,090
Long-term Care Insurance Fund	113,312	96,271
	945,942	883,821

CIF movements during the year	2021	2020
	£'000s	£'000s
Market value 1 January	883,821	920,726
Investment income reinvested	3,687	3,257
Realised profit on disposal reinvested	13,513	2,242
Movement on unrealised profit/(loss) on investments	81,921	(9,854)
	982,942	916,821
Withdrawal of monies invested	(37,000)	(33,000)
Market value 31 December	945,942	883,821

During 2021, the Common Investment Fund was managed by nine (2020: nine) investment managers, namely: BlackRock Investment Management (UK) Limited; Morgan Stanley Investment Management Limited, GMO UK Limited, CQS Global Funds, AQR Funds, M&G Investments, MAN funds, Federated Hermes and 24AM Vontobel.

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

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (continued)

Fair Value Measurement

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

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

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

Fair Value at 31.12.2021	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000
Equities and derivatives	174,228	35,079	-	209,307
Alternative investments and hedge funds	37,868	244,176	-	282,044
Cash and cash equivalents	29,345	-	-	29,345
Fixed income and derivatives	164,601	177,942	-	342,543
Venture capital and partnerships	-	477	73,308	73,785
Property funds	1,286	708	6,924	8,918
Common Investment Fund	407,328	458,382	80,232	945,942

Fair Value at 31.12.2020	Level 1 £'000s	Level 2 £'000s	Level 3 £'000s	Total £'000
Equities and derivatives	147,711	39,051	-	186,762
Alternative investments and hedge funds	33,698	205,802	-	239,500
Cash and cash equivalents	29,102	-	-	29,102
Fixed income and derivatives	194,259	167,091	-	361,350
Venture capital and partnerships	-	-	60,615	60,615
Property funds	735	674	5,083	6,492
Common Investment Fund	405,505	412,618	65,698	883,821

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. FINANCIAL INSTRUMENTS (continued)

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

The level 3 investments consist of pooled investment vehicles, private equity and venture capital funds, real estate funds and infrastructure funds which typically involve the purchase and redemption of shares from the fund itself rather than a secondary market. The majority of level 3 investments have therefore been measured at fair value using the reported net asset value ("NAV"), as this is the approximate value at which shares are redeemable and therefore a basis for current transactions, based on the most recent information available. That information will be provided by the underlying investment fund. Where the valuation date for the investment fund is not coterminous with the year end of the States, the most recent valuation before the valuation date, as received from the underlying fund manager or administrator, is used as the basis of the valuation. This basis is then adjusted for underlying fund level cash flows that have occurred between the last valuation date and the year-end date. From time to time, non-cash flow related adjustments may also be made if deemed to be of a material nature. The NAV reported by the fund manager or administrator may be unaudited and in some cases, the notified NAV is based on estimates. No adjustment has been made for restrictions on redemption, which are all for periods of greater than 3 months, or for factors such as the marketability of the investment due to it not being listed.

Transfers between levels

There have been no transfers between the levels during the year (2020: None).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**10. FINANCIAL INSTRUMENTS (continued)****Financial instrument analysis**

Assets at 31.12.2021	Fair Value through profit or loss	Amortised Cost	Total
	£'000s	£'000s	£'000s
Common investment fund	945,942	-	945,942
Cash & cash equivalents	-	(3,953)	(3,953)
Trade and other receivables	-	40,903	40,903
Trade and other payables	-	(2,951)	(2,951)
	945,942	33,999	979,941

Assets at 31.12.2020	Fair Value through profit or loss	Amortised Cost	Total
Restated	£'000s	£'000s	£'000s
Common investment fund	883,821	-	883,821
Cash & cash equivalents	-	(2,660)	(2,660)
Trade and other receivables	-	37,853	37,853
Trade and other payables	-	(3,785)	(3,785)
	883,821	31,408	915,229

The Committee do not believe that there is any material difference between the fair value and the amortised cost equivalent of assets and liabilities held at amortised cost.

11. DEBTORS DUE AFTER ONE YEAR

	31.12.21	31.12.20
	£'000s	£'000s
Benefit debt	159	160
Provision for doubtful debts	(74)	(60)
	85	100

12. DEBTORS DUE WITHIN ONE YEAR

	31.12.21	31.12.20
	£'000s	Restated £'000s
Contributions receivable	32,266	33,268
States of Guernsey Intercompany & Treasury	4,587	199
Benefits and allowances prepaid	3,565	3,904
Trade debtors	400	382
	40,818	37,753

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31.12.21 £'000s	31.12.20 Restated £'000s
Benefits and allowances payable	2,501	2,463
Other creditors and accruals	196	517
Trade creditors	254	805
	2,951	3,785

14. SUPERANNUATION FUND

The employees of Committee for Employment & Social Security are members of the States of Guernsey Public Servants' Pension Scheme. These arrangements provide defined benefits on a career average revalued earnings ("CARE") basis up to a salary cap (currently £94,081 (2020: £94,081)) for members joining from 1 May 2015 and, on a different CARE basis, for the service from 1 March 2016 of members who joined before 1 May 2015. There is a defined contribution section for earnings in excess of this salary cap. The arrangements for service before 1 March 2016 for members who joined before 1 May 2015 and for the future service of those closer to pension age remains final salary.

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

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

Further details relating to the funding of the Superannuation Scheme are included within The States of Guernsey Accounts 2021.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. RELATED PARTY TRANSACTIONS

The Committee members and senior management confirms that there have been no related party transactions to disclose in this financial year (2020: Nil). Of the Committee's annual income and expenditure, less than 20% of their respective value for both 2021 and 2020 is due to transactions with other States entities, except as disclosed in notes 1, 2, 5, 7, 11 and 13. Balances with the States of Guernsey at the year-end amounted to £4.3m receivable (2020: £0.2m receivable).

Key management personnel compensation disclosure

For the year, total staffing costs associated with the Committee's key management was £0.9m (2020: £1.09m), comprising 10.7 full-time equivalent staff (2020: 11.5 FTE). Approximately £0.32m of total costs is allocated to the Contributory Funds (2020: £0.44m), the balance being charged to General Revenue.

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS

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

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

Governance Risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Financial Exposure Risk

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

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

Risk	Cause	Indicative magnitude of loss	Time to recover
Regular Market Volatility	Trading activity and market sentiment	5%-10%	Months to one year
Market Stress	Market issues e.g. credit/currency or demand/supply issues	10%-15%	1 to 2 years
Permanent Loss	Overvaluation or economic regime change	10%-20%	Can be decades

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Market risk

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

Market price risk sensitivity

The following table illustrates the sensitivity of the Common Investment Fund to a movement in the fair values of the all asset classes. A 10% variance in the fair values is considered a reasonable expectation of movement, which would create a significant movement in valuation. A 10% variance would have resulted in an increase or decrease of equal value.

	31.12.2021	31.12.2020
	£'000s	£'000s
Fair value at year-end	945,942	883,821
Variance of 10% in fair value	±94,594	±88,382

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

(i) Currency risk

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

Management of currency risk

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

Open forward foreign currency contracts

There were 5 (2020: 5) open forward currency contracts at the year-end. An analysis of the open contracts is as follows:

Contract	Settlement Date	Currency	Contracted Amount £'000s	31.12.21 Fair value £'000s
Forward FX Purchase	1 month	GBP	115,981	115,981
Forward FX Sale	1 month	AUD	(2,251)	(2,248)
Forward FX Sale	1 month	CAD	(6,197)	(6,161)
Forward FX Sale	1 month	EUR	(7,666)	(7,563)
Forward FX Sale	1 month	USD	(99,867)	(97,661)
			-	2,348

Contract	Settlement Date	Currency	Contracted Amount £'000s	31.12.20 Fair value £'000s
Forward FX Purchase	1 month	GBP	97,115	97,115
Forward FX Sale	1 month	AUD	(2,063)	(2,070)
Forward FX Sale	1 month	CAD	(5,980)	(5,860)
Forward FX Sale	1 month	EUR	(7,856)	(7,751)
Forward FX Sale	1 month	USD	(81,216)	(79,685)
			-	1,749

SOCIAL SECURITY – CONTRIBUTORY FUNDS

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Foreign currency exposure

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

31.12.21	Monetary Assets	Monetary Liabilities	Non- Monetary Assets	Non- Monetary Liabilities	Forward FX Contracts	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
GBP	21,181	-	802,283	-	115,981	940,145
AUD	20	-	2,274	-	(2,248)	46
CAD	141	-	6,467	-	(6,161)	447
EUR	16	-	6,081	-	(7,564)	(1,467)
USD	5,639	-	98,793	-	(97,661)	6,771
Total (CIF)	26,997	-	916,598	-	2,347	945,942
GBP	278	(4,231)	40,903	(2,951)	-	33,999
Total	27,275	(4,231)	957,501	(2,951)	2,347	979,941

31.12.20	Monetary Assets	Monetary Liabilities	Non- Monetary Assets	Non- Monetary Liabilities	Forward FX Contracts	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
GBP	25,465	-	761,062	-	97,115	883,642
AUD	0	-	2,019	-	(2,070)	-51
CAD	9	-	6,120	-	(5,860)	269
EUR	7	-	6,273	-	(7,751)	(1,471)
USD	1,272	-	79,845	-	(79,685)	1,432
Total (CIF)	26,753	-	855,319	-	1,749	883,821
GBP	390	(3,050)	44,276	(3,785)	-	37,831
Total	27,143	(3,050)	893,172	(3,785)	1,749	915,229

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Foreign currency exposure (continued)

At 31 December 2021, had the GBP strengthened by 10% in relation to other currency exposure of the Common Investment Fund (CIF), with all other variables held constant, the valuation of the CIF would have changed by the amounts shown below. The analysis is performed on the same basis for 2020. A 10% weakening of GBP against other currencies respectively would have resulted in an equal but opposite effect. A movement of 10% is considered a reasonable expectation of currency movements based on historical currency rates over the past twelve months, and allows for additional currency risk within the portfolio.

Foreign Currency Exposure – Sensitivity Analysis	31.12.2021	31.12.2020
	£'000s	£'000s
AUD	2	(3)
CAD	22	13
EUR	(73)	(74)
USD	339	72
Total	290	8

(ii) Interest rate risk

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

Management of interest rate risk

The interest rate profile of the Common Investment Fund at year-end is as follows:

Interest rate profile 31.12.21	Fixed	Floating	Total
	£'000	£'000	£'000
Cash and cash equivalents	-	29,345	29,345
Fixed income and derivatives	220,895	121,647	342,542
Total	220,895	150,992	371,887

Interest rate profile 31.12.20	Fixed	Floating	Total
	£'000	£'000	£'000
Cash and cash equivalents	600	28,501	29,101
Fixed income and derivatives	171,653	189,697	361,350
Total	172,253	218,198	390,451

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)

Management of interest rate risk (continued)

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

The Common Investment Fund has no direct holdings in fixed interest securities (2020: 2) and floating rate assets comprise cash held within the Common Investment Fund. No sensitivity analysis has been provided on the basis that any movement would not be material to the Common Investment Fund.

(iii) Credit risk

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

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

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

(iv) Counterparty risk

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

(v) Liquidity risk

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**16. FINANCIAL RISK MANAGEMENT AND ASSOCIATED RISKS (CONTINUED)**

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

Liquidity Analysis	Within 1 month	1 to 3 months	3 to 12 months	Over 12 months	31.12.21 Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Common investment fund	765,956	92,548	13,157	74,281	945,942
Cash and cash equivalents	(3,953)	-	-	-	(4,241)
Trade and other receivables	40,818	-	-	85	40,572
Trade and other payables	(2,951)	-	-	-	(2,951)
Total	799,870	92,548	13,157	74,366	979,941
% of Total	81.6%	9.5%	1.3%	7.6%	100.0%

Liquidity Analysis Restated	Within 1 month	1 to 3 months	3 to 12 months	Over 12 months	31.12.20 Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Common investment fund	635,704	118,262	57,872	71,983	883,821
Cash and cash equivalents	(2,660)	-	-	-	(2,660)
Trade and other receivables	37,753	-	-	100	37,853
Trade and other payables	(3,785)	-	-	-	(3,785)
Total	667,012	118,262	57,872	72,083	915,229
% of Total	72.9%	12.9%	6.3%	7.9%	100.0%

The investments categorised under the level 1 Fair Value hierarchy are valued at £407m at the year-end (2020: £636m). Investments with quoted prices and traded on an active market could usually be liquidated within one month. However, due to the size of certain of the level 1 holdings, it is assumed it that may take longer to liquidate some of these holdings and as such they have been analysed as 1-3 months.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. CAPITAL MANAGEMENT

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

The Contributory Funds have no externally imposed capital requirements.

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

In addition to the Committee's financial risk management as detailed in note 16, the management of other associated and qualitative risks as follows:

Demographic Risk

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. CAPITAL MANAGEMENT (CONTINUED)

Performance Risk

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

- It should be well understood what the objectives of Fund Managers and providers are and the time horizon over which these operate;
- There should be evidence that added-value is skilful (rather than lucky or the result of a persistent systemic position). The basis for skill – i.e. what it is and why it is expected to persist – should be clear and understood. If this evidence does not exist, it is difficult to have confidence in the ability of performance to be delivered;
- All mandates involve constraints within which the Fund manager or provider must operate. It is important that operations are within the mandate and that there have been no breaches (or any breaches have been rectified quickly); and
- It is important to understand in advance how the Fund Manager or provider is expected to perform in a range of different conditions, in order that returns generated over various time horizons may be interpreted effectively.

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

Review of historical performance

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

Operational Risk

The risk is associated with losses resulting from weak controls, process or security. Operational risks can be either internal or external. Internal risks mainly refer to cash flow management. The Committee must ensure it plans for future cash flows and that all payments will be made in a timely manner (See: Note 16 Liquidity Risk above).

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. STATEMENT OF CONTROL

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

19. CHANGE OF ACCOUNTING POLICY

During the year, the Contributory Funds have changed their accounting policy with respect to the recognition of Contributions, accounting for all receivables as they fall due. Previously, the accounting policy was to account for Contributions receivable that were cash receipts in the first month following the year end. The accounting policy has been applied retrospectively, and comparatives have been restated. The following table provides an analysis of financial statement line changes:

	2020 As previously stated £'000s	Adjustment £'000s	2020 Restated £'000s
Aggregated Fund Accounts			
Contributions	180,119	388	180,507
States grant	16,332	22	16,354
Aggregated Statement of Financial Position			
Debtors due within one year	32,585	5,168	37,753
Creditors due within one year	(3,956)	171	(3,785)
Reserves:			
Guernsey Insurance Fund	702,366	2,885	705,251
Guernsey Health Service	114,137	1,300	115,437
Long-term Care Insurance Fund	99,810	1,154	100,964

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. SUBSEQUENT EVENTS

Under section 1 of the Health Service Benefit (Amendment and Miscellaneous Provisions) (Guernsey) Law, 2021, all monies in the Guernsey Health Service Fund as at 1 January 2022 (that date being appointed under the Health Service Fund (Closure and Miscellaneous Amendments) Regulations, 2021) were paid into the general revenue account of the States and, immediately after, the Guernsey Health Service Fund was closed. The monies paid into the general revenue account of the States are referred to within that account as the Guernsey Health Reserve.

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CONSTITUENT CONTRIBUTORY FUND ACCOUNTS

	Note	GIF 2021 £'000s	GHSF 2021 £'000s	LTCIF 2021 £'000s	TOTAL 2021 £'000s	TOTAL 2020 Restated £'000s
Income						
Contributions	1(c),2	118,166	43,492	29,272	190,930	180,507
States grant	1(c)	17,317	-	-	17,317	16,354
		135,483	43,492	29,272	208,247	196,861
Expenditure						
Benefits payable	1(d),3	163,041	49,224	22,718	234,983	223,406
Administration	7	4,019	1,712	403	6,134	6,087
		167,060	50,936	23,121	241,117	229,493
Operating (deficit)/surplus before depreciation charge		(31,577)	(7,444)	6,151	(32,870)	(32,632)
Depreciation charge	9	(73)	-	-	(73)	(80)
Operating (deficit)/surplus		(31,650)	(7,444)	6,151	(32,943)	(32,712)
Investment returns	1(h),8	75,813	12,166	11,292	99,271	(4,130)
Net surplus/(deficit)		44,163	4,722	17,443	66,328	(36,842)
Net assets at 1 January		705,251	115,437	100,964	921,652	958,494
Net assets at 31 December		749,414	120,159	118,407	987,980	921,652

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