

2003

2004

2005

2006

REPORT & ACCOUNTS 2007

2007

Social Security Department
Centre for work, pensions and benefits

States 
of Jersey

Social Security Department

Centre for work, pensions and benefits

MINISTER

P.F. ROUTIER, Senator

ASSISTANT MINISTER

P.N. TROY, Deputy of St Brelade

CHIEF OFFICER

R.W. BELL

On the 16 December 2008, the Social Security Minister presented to the Assembly its Report and Financial Statements for the year ended 31 December 2007.

The States ordered that the said Report be printed and distributed.

Mr M. N. De La Haye

Greffier of the States.

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Minister's Report for 2007

Introduction

The Social Security Fund has again achieved success in terms of its finances, with income increasing at a greater rate than expenditure, generating a surplus of £39 million - some £4 million more than 2006.

The Social Security (Reserve) Fund performed well during the year, increasing in value by £58 million. This continued to be good news for the Island and reflected long term policy decisions around contribution rates and ceilings; the management of benefit expenditure and the effective performance of investment assets.

Though 2007 was a big year for the Department, with the impending introduction of Income Support, these accounts reflect that it was indeed business as usual with regard to the payment of pensions and other contributory benefits and the collection of contributions.

I am pleased to report that the Financial Statements which include the Social Security Fund, the Social Security (Reserve) Fund and the Health Insurance Fund, as set out on the following pages, are now fully U.K. GAAP compliant. This is ahead of the requirement for the States of Jersey and is the first Department to achieve this.

The Department consolidated and extended progress in a number of major policy areas. These included the implementation of the Winter Fuel Allowance; continuation of the work on phase 2 of the Employment Legislation programme with regards family friendly and flexible working policies and the preparation of redundancy and business transfers legislation. In addition, proposals for actions arising from the independent review on Incapacity Benefits were published during the year.

Progress continued to be made with the development of the Income Support system which received States approval in October. The new system will distribute funds in a way that is fair, transparent, accessible and aimed at providing a safety net for those in real need.

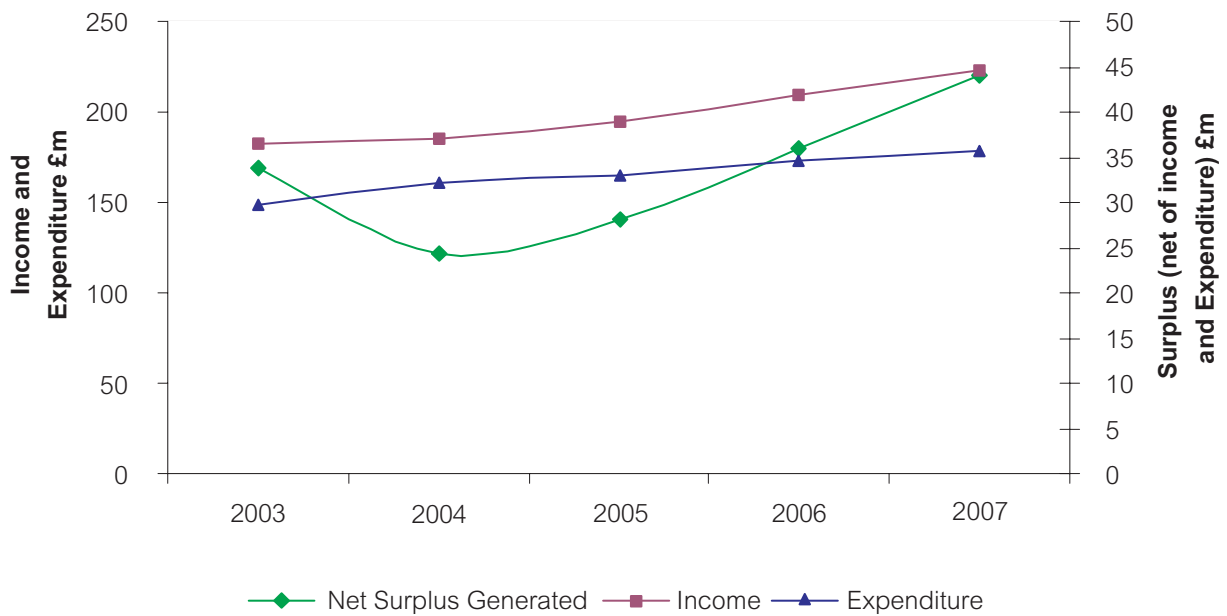
The year also saw a sustained rise in contribution income and expenditure, with surpluses achieved during the year in both the Social Security Fund and Health Insurance Fund, providing opportunity for further investment for the future. Headline figures were:

- **Income** from contributions, interest and rent reached £224 million, an increase of 7% (2006: £209 million).
- **Expenditure on benefits** was £174 million, a rise of 5% (2006: £166 million).
- A rise of £58.3 million in **Net Assets** of the **Social Security (Reserve) Fund**, the investment vehicle for the funds was achieved, increasing the total balance to £642 million (2006: £583 million).
- An increase of £10 million in **Net Assets** of the **Health Insurance Fund**, raising the Net Assets to £63 million (2006: £53 million).

Minister's Report for 2007 Accounts

The graph below shows the movement in income and expenditure over the last five years and the surplus achieved:

INCOME, EXPENDITURE AND SURPLUS OF THE SOCIAL SECURITY AND HEALTH INSURANCE FUNDS



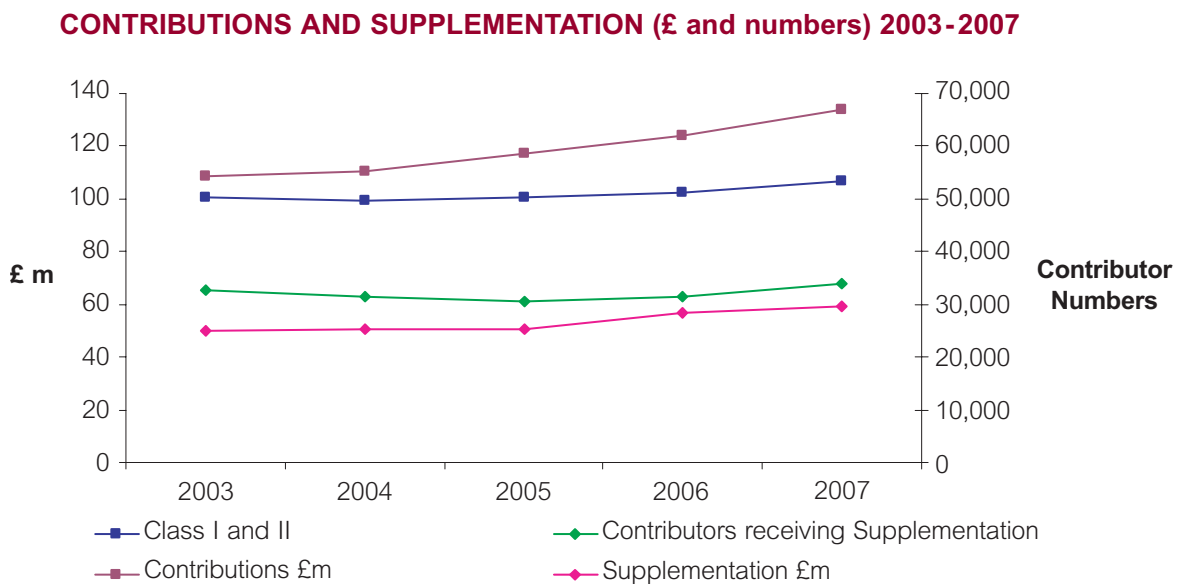
Minister's Report for 2007

Social Security Scheme

The Social Security scheme is the means by which people insure themselves, through the payment of contributions, for periods when they are unable to work through ill-health or maternity and also when they retire.

- **Contributions** collected from employees and employers rose by £10 million to £134 million (2006: £124 million). This rise reflects the earnings linked up-rating in the contribution ceiling (3.3%) and the increase in the number of people working on the Island. There were approximately 52,300 working in the island and contributing - an increase of 1,000 from 2006.
- **States Contribution** reflects the funding provided by the States to top-up the contributions of the lower to medium range of wage earners (those earning between £8,220 and £38,904) to protect their benefit and pension entitlement. This is called supplementation and for 2007 the number of workers earning below the contribution ceiling remained fairly static to the number in 2006 at 31,484 (2006: 31,444). In terms of the cost for the year, at the time of preparing the estimates for the 2007 Annual Business Plan, in early 2006, the growth in supplementation was not fully apparent. A revision to the forecast in early 2007 identified a further requirement of up to £2.65 million, resulting in a proposition to the States from the Treasury and Resources Minister, which received approval in October. Only £1.17 million of this was required. The final expenditure was £58.6 million, a 4% increase over 2006.

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



- **Pension costs** increased by 6% to £116.5 million (2006: £110 million). The increase was driven by two factors - the increase in pensioner numbers of 718 from 2006 to 24,202 and the annual earnings-linked up-rating.
- **Incapacity Allowances** increased by 1.4% to £36.2 million (2006: £35.7 million). These are payable when a person is unable to work through injury, ill-health or disability.
- **Grants and Allowances** The Department pays maternity allowance, maternity grant and death grant. These costs totalled £2.7 million for the year (2006: £2.6 million) and accounted for 1.7% of expenditure in 2007.

Minister's Report for 2007

Social Security (Reserve) Fund

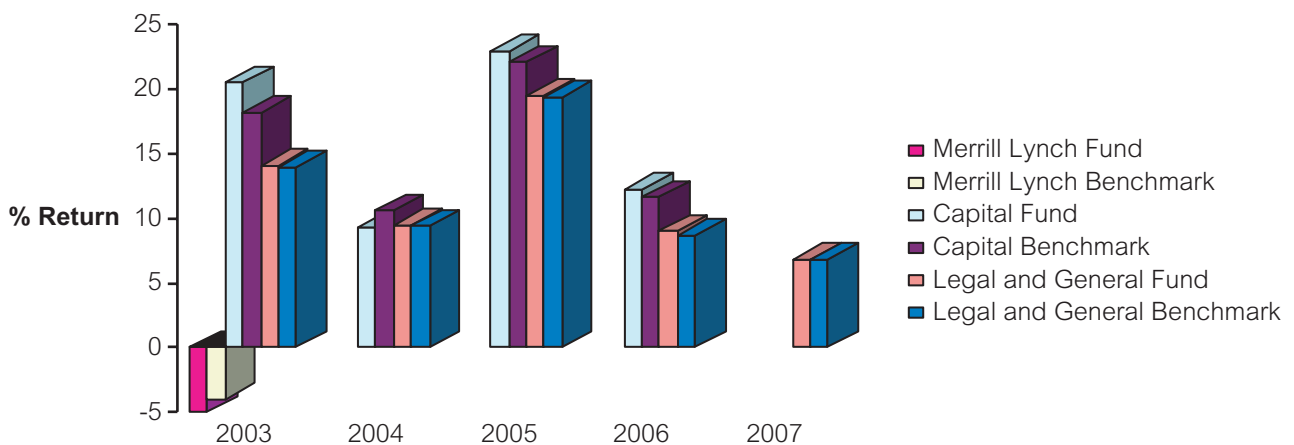
The Social Security (Reserve) Fund is the mechanism by which contribution rate and ceiling changes are smoothed over time. Without this Fund, pensions and benefits would need to be paid entirely on a pay-as-you-go basis. At present and for the foreseeable future, benefits will be funded out of annual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

The net asset value of the Fund reached £641.7 million at the end of 2007 - an increase of £58.3 million on 2006. The Accounting Officer of the Fund is the Treasurer of the States. The Fund is performance managed by the Treasury and Resources Department through a Committee chaired by the Minister for Treasury and Resources and is attended by the Minister for Social Security. Investment advice is received from Hewitt Bacon & Woodrow Limited.

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

The graph below shows the return achieved against the benchmark over the last 5 years:

RETURNS RELATIVE TO THE BENCHMARK 2003 - 2007



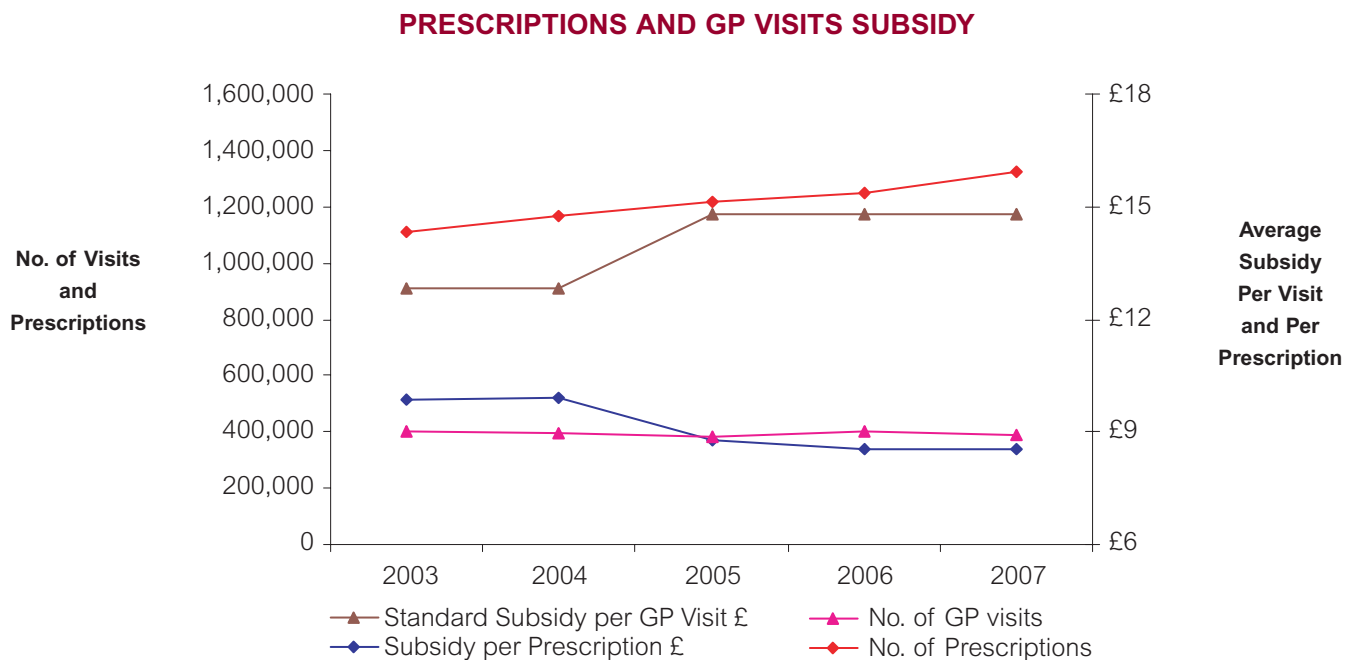
Minister's Report for 2007

Health Insurance Fund

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

- **Contributions** collected from employees and employers rose by £1.9 million to £25.5 million, an 8% increase (2006: £23.6 million) which reflects both the earnings linked up-rating in the contribution ceiling and the increase in the number of people working in Jersey.
- During 2007, the number of subsidised visits to **General Practitioners** was in excess of 389,000, costing £6.3 million, the same as 2006.
- The cost of subsidising **prescriptions** rose slightly during 2007 to £11.7 million (2006: £11.1 million). The Department continues to work with General Practitioners on prescribing protocols and the selection of cost effective products.

The graph below shows the number of GP visits and prescriptions with the average subsidy paid since 2003:



- The **Net Assets** of the Health Insurance Fund reached £63.4 million at the end of 2007 (2006: 52.8 million). This Fund continues to perform well, however this should not be cause for complacency. This will assist in cushioning the financial impact of developments in medical technology and the challenge of future demographic changes.
- The UK Government Actuary's Department (GAD) last carried out their last review of the Fund as at 31 December 2002 and reported that it had grown strongly over the previous 5 years. The next report, which is for the period ending 31 December 2007, will be published once available. The Investment Policy sets out the requirement that the Fund must meet at least 12 months' expenditure and at present the accumulated surplus exceeds this target by more than three times.

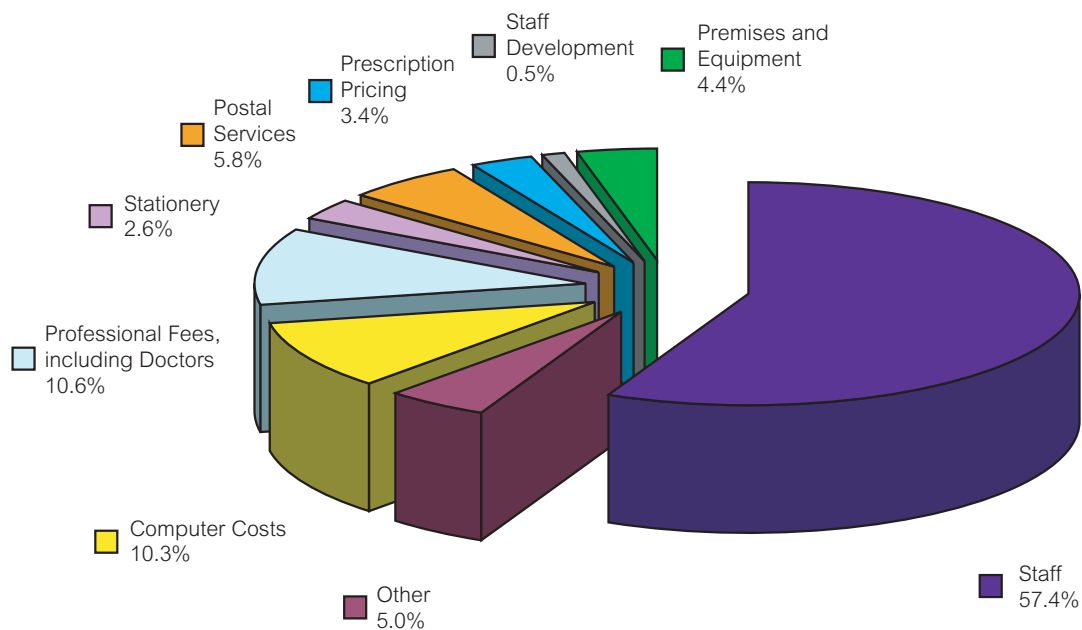
Minister's Report for 2007

Administration of the Funds

The Social Security Department administer the Social Security Fund and the Health Insurance Fund. The Social Security (Reserve) Fund is administered by the Treasury and Resources Department with the Treasurer of the States as Accounting Officer. Expenditure on administering benefits from these funds remained fairly static at £5.2 million (2006: £5.0 million). This accounts for 3.0% (2006: 3.0%) of benefits administered.

The pie chart below shows the category of expenditure within the total administration cost:

ADMINISTRATION COSTS £5.2 MILLION – EXPENDITURE ANALYSIS



Social Security Fund

The funding principles of the Social Security Scheme

The Social Security Scheme is financed on the “Pay-as-you-go” basis, with the expenditure on benefits and administration being met from current income.

The Social Security (Reserve) Fund is maintained for a dual purpose:-

1. as a reserve against adverse economic conditions or other contingencies.
2. as a mechanism by which contribution rates may be levelled out over the years.

Social Security requires long term planning. The rates of contribution required to meet the outgoings of the Scheme are determined not only by the level of benefits, but also by the relative numbers of beneficiaries and contributors. Independent actuarial reviews of the scheme are taken every three years to assist in this planning. The finalised actuarial report as at 31 December 2003 concluded that the financial outlook for the Fund remains healthy in the short to medium term. This is largely due to the 0.5 per cent increases in the contribution rates each year from 1998 to 2002 and the increases in the upper earnings limit over and above earnings growth. Copies of the latest actuarial report are available from the States' Greffe.

Social Security Fund

Statement of the responsibilities of the Social Security Minister of the States of Jersey in respect of the Financial Statements

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

In preparing the financial statements, the Minister is required to:

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

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

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

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

Social Security Fund

Independent Auditor's Report to the Minister for Social Security

I have audited the financial statements of the Social Security Fund and the Social Security (Reserve) Fund which comprise the income and expenditure account, the statement of total return, the statement of total recognised gains and losses, the balance sheets, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Minister and auditors

As described in the Statement of the Minister's Responsibilities, the Minister is responsible for the preparation of the financial statements in accordance with applicable Jersey law and United Kingdom Accounting Standards.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Minister in accordance with the Social Security (Jersey) Law 1974 and for no other purpose. I do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by my prior consent in writing.

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Social Security (Jersey) Law 1974. I also report to you if, in my opinion, the Minister's report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for the audit.

I have read the other information contained in the Annual Report and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Minister's report and the statistical appendices.

Basis of audit opinion

I have conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Minister in the preparation of the financial statements, and of whether the accounting policies are appropriate to the funds' circumstances, consistently applied and adequately disclosed.

I planned and performed the audit so as to obtain all the information and explanations which I consider necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements give a true and fair view, in accordance with United Kingdom Accounting Standards, of the state of the funds' affairs as at 31 December 2007 and of their transactions and cash flow for the year then ended and have been properly prepared in accordance with the Social Security (Jersey) Law 1974.



C. Swinson, OBE,
Comptroller & Auditor General
Morier House, Halkett Place, St Helier, JE1 1DD
18th November 2008

Social Security Fund

Income and Expenditure Account for the year ended 31 December 2007

	Notes	2007		2006 (as restated)	
		£000	£000	£000	£000
INCOME	(1)				
Contributions			133,913		123,954
States contribution			58,627		56,567
Bank interest			1,513		1,528
Other income			105		144
Net income from Social Security (Reserve) Fund			5,983		7,593
			200,141		189,786
EXPENDITURE	(1)				
Benefits					
Pensions					
Pensions and survivors' benefits			116,506		109,958
Short term incapacity					
Short term incapacity allowance			11,198		11,101
Long term incapacity					
Long term incapacity allowance		9,132		7,465	
Invalidity benefit		15,914		17,129	
			25,046		24,594
Grants and allowances					
Maternity allowance		1,830		1,737	
Maternity grant		482		434	
Death grant		366	2,678	401	2,572
			155,428		148,225
Administration Expenses					
Staff costs	(4)	2,506		2,364	
Depreciation	(7)	2,061		2,267	
Other administrative expenses		1,548		1,672	
			6,115		6,303
			161,543		154,528
Surplus of Income over expenditure for the year	(6)		38,598		35,258
Transferred to Social Security (Reserve) Fund			(5,983)		(7,593)
Retained Surplus for the year in the Social Security Fund			32,615		27,665

Continuing Operations

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

Note of Historical Cost Profit and Losses

There are no material differences between the surplus of income over expenditure for the year and the retained profit for the year stated above and their historical cost equivalents.

The notes on pages 18 to 33 form an integral part of these financial statements.

Social Security Fund

Statement of Total Recognised Gains and Losses as at 31 December 2007

	2007 £000	2006 (as restated) £000
Surplus for the financial year	32,615	27,665
Add: Appropriation to Social Security (Reserve) Fund	5,983	7,593
Less: Transferred to Social Security (Reserve) Fund	(21,600)	(31,700)
Total recognised gains and losses	16,998	3,558

Refer to note 16 for details of the restatement of the financial statements for 2006. There has been no cumulative effect of the prior year adjustment on reserves.

The notes on pages 18 to 33 form an integral part of these financial statements.

Social Security Fund

Balance Sheet as at 31 December 2007

	Notes	2007		2006 (as restated)	
		£000	£000	£000	£000
Fixed Assets					
Tangible fixed assets	(7)		12,310		12,530
Current Assets					
Debtors	(8)	36,508		33,380	
Cash at bank and in hand		33,386		24,575	
		69,894		57,955	
Creditors: amounts falling due within one year	(9)	12,825		12,121	
Net Current Assets			57,069		45,834
Creditors: amounts falling due after more than one year	(10)		(32)		(32)
Net Assets			69,347		58,332
Funds Employed					
Revaluation Reserves	(11)		719		719
Revenue Reserves	(12)		68,628		57,613
			69,347		58,332

The financial statements on pages 14 to 50 were approved by the Social Security Minister, Senator P.F. Routier on 14th November 2008.



Senator P. F. Routier

The notes on pages 18 to 33 form an integral part of these financial statements.

Social Security Fund

Cash Flow Statement as at 31 December 2007

	Notes	2007		2006 (as restated)	
		£000	£000	£000	£000
Operating Activities					
Net cash inflow from operating activities	(14)		28,748		25,928
Returns on Investments and Servicing of Finance					
Bank interest received		1,451		1,589	
Rent received		99		138	
Net Cash inflow from Returns on Investments & Servicing of Finance					
			1,550		1,727
Capital Expenditure and Financial Investments					
Payments to acquire tangible fixed assets		(1,472)		(724)	
Transfers to Social Security (Reserve) Fund		(21,600)		(31,700)	
Net cash outflow from Capital expenditure and Financial Investments					
			(23,072)		(32,424)
Management of Liquid Resources					
(Increase)/decrease in money held on deposit			(8,350)		5,950
(Decrease)/increase in cash in year					
	(15)		(1,124)		1,181

Reconciliation of net cash flow to movement in net funds

		2007		2006 (as restated)	
		£000	£000	£000	£000
(Decrease)/increase in cash in the year		(1,124)		1,181	
Cash used to increase/(decrease) liquid resources		8,350		(5,950)	
Change in Net Funds					
			7,226		(4,769)
Net Funds at 1 January					
			22,741		27,510
Net Funds at 31 December					
	(15)		29,967		22,741

The notes on pages 18 to 33 form an integral part of these financial statements.

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

1. ACCOUNTING POLICIES

1.1 Basis of Preparation

The financial statements are prepared on the historical cost convention, as modified by the revaluation of certain tangible fixed asset investments, in accordance with UK GAAP, so far as it is applicable to these financial statements. In the absence of any detailed guidance on the required format of financial statements we have referred to the UK Government's Financial Reporting Manual for Government entities. The Manual considers the question of accounting for specialised funds and requires that their presentation is agreed on a case by case basis with the relevant authority, which under the Social Security (Jersey) Law 1974 is the Minister for Social Security. The Minister considers that the format contained within these financial statements is the most appropriate to the circumstances of the Social Security Fund (the "Fund").

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

FRS17 sets out the standards for sponsors of occupational pension schemes to account for their liabilities in respect of those schemes. It requires sponsors to place on their balance sheet the surplus or deficit in the scheme as far as the sponsor is able to recover the surplus or make up the deficit. The annual change to the surplus or deficit is reported partly through the profit and loss account and partly through the Statement of Total Recognised Gains and Losses (STRGL).

The Fund provides pension benefits for the contributors of the scheme within the Island and hence could be seen to fall under FRS 17. However, there are a very wide range of opinions on the extent to which countries need to declare their pension scheme surplus or deficit and these have yet to be resolved. This view is supported by the UK Government Actuary Department (GAD) who have advised that they are unaware of any countries who report their pension scheme surplus or deficit on their balance sheet. Considering all of these factors and the nature of the Fund, the Minister has decided that it is not appropriate to include any pension scheme surplus or deficit on the Fund's balance sheet.

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

UK GAAP Disclosures

The Department have considered the disclosure requirements under UK GAAP and as a consequence a number of comparative figures have been restated.

The Department has adopted FRS 26, 'Financial Instruments: Recognition and Measurement'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Fixed deposit accounts were previously classified as Investments, however under FRS 26 they are now reclassified within Cash at Bank and in Hand.

The Department has adopted FRS 29, 'Financial Instruments: Disclosures'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. There is no prior year adjustment to reserves resulting from adopting this standard, as its provisions relate to disclosure.

1.2 Foreign currency translation

(a) Functional and presentation currency

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

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

(b) Transaction and Balances

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

1.3 Income

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

(a) Contributions

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

Social Security contributions are set at the rate of 10.5% of earnings (Employees, 5.2%; Employers, 5.3%). The financial statements include an estimation in respect of the contributions from insured persons, employers and the States of Jersey for the year ended 31 December 2007.

(b) States' Contribution

States' contribution is the sum paid by the States of Jersey to supplement the contributions of individuals with monthly earnings between the lower earnings (2007 threshold: £685 per month) and the upper earnings (2007 limit: £3,242 per month), to ensure that an individual's contribution record is maintained resulting in full benefit and pension payments.

(c) Bank Interest Received

Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate.

(d) Other Income

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

(e) Net income from Social Security (Reserve) Fund

In accordance with the Social Security Law (Jersey) 1974, the net revenue return on the Social Security (Reserve) Fund is transferred to the Social Security Fund at the end of the financial year. Excess funds held by the Social Security Fund are transferred to the Social Security (Reserve) Fund.

1.4 Benefits and administrative expenses

Benefits

Benefits are paid to claimants who qualify for a benefit within the Social Security (Jersey) Law 1974 and meet the required conditions.

Benefits are recognised during the period when they become due and consist of the following:

(a) Pensions

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

(b) Short Term Incapacity Benefit

Short Term Incapacity Allowance is a daily benefit which is payable to claimants in receipt of a medical certificate who are unfit for work due to illness or injury and who meet certain contribution conditions.

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

(c) Long Term Incapacity Benefit

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

(d) Grants and Allowances

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

Administrative Expenses

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

(a) Staff Costs

Staff costs include salaries, wages paid to staff and pension contributions.

(b) Other Administrative Expenses

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

1.5 Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation.

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

The principal useful lives used for this purpose are:

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

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

1.6 Cash at Bank and in Hand

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

1.7 Trade Debtors

Trade debtors are measured at initial recognition at fair value and reflect contributions and services provided for which income is due as at 31 December 2007 and benefits due in 2008 which are paid in 2007. Contributions outstanding at the 31 December 2007 represent contributions for the last quarter (October to December 2007).

Outstanding contributions are estimated using historical data adjusted for any contributions received. The calculation also includes the balance of instalment arrangements outstanding and the value of the third quarter 2007 arrears due from successful civil court action along with an estimate for the last quarter 2007 civil court action.

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

1.8 Bad Debts

Class I and Class II contributions are written off as follows:

Class I: A write off is made when the employer cannot contribute on behalf of their employee by virtue of being declared en desastre or bankrupt.

Class II: A write off is made when the individual has defaulted on an instalment arrangement and has died.

An instalment arrangement is when the contributor has entered into a financial arrangement with the department to reimburse outstanding contributions due from earlier periods.

A provision for bad debts is made when contributions due from earlier periods are not paid and an instalment arrangement is entered into.

Any bad debt write off is subject to Ministerial approval and apportioned between the Social Security Fund and the Health Insurance Fund.

1.9 Provision for Liabilities and Charges

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

1.10 Funds Uncleared at Bank

The Fund does not have a facility for a bank overdraft. Funds uncleared at bank represent cheques issued not yet cashed on the benefit payment bank accounts. As the daily receipts are in excess of the cheques not yet cashed the bank accounts do not go overdrawn.

1.11 Loans Payable

The Health Insurance Fund does not operate a bank account, other than fixed deposit accounts. Consequently all receipts and payments in relation to the Health Insurance Fund are made through nominated Social Security Fund bank accounts and then reallocated to the loan accounts as appropriate. The loan account does not bear interest and is repayable on demand.

1.13 Taxation

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

2. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

Trade Debtors

Trade debtors are measured at initial recognition at fair value and subsequently at amortised cost.

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

2. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Cash at Bank

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

Trade Creditors

Trade creditors are measured at initial recognition at fair value and subsequently at amortised cost.

3. FINANCIAL RISK MANAGEMENT

The fund's activities expose it to liquidity and credit risk. The Social Security Department undertakes periodic risk reviews which involve identifying key risks through scoring and their mitigation.

(a) Market Price Risk

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

(b) Credit Risk

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

The Fund's credit risk is primarily attributable from its trade debtors. The Fund's objectives for managing the risk are to ensure that the trade debtors are recovered on a timely basis and that the cash at bank is secure. Where monies are not received within their payment terms they are referred to the Social Security Compliance Section for recovery. In these instances instalment arrangements are made for repayment of monies owed or court action progressed.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies which are also used by the States of Jersey.

(c) Liquidity Risk

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

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

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

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

4. STAFF COSTS

Remuneration directly associated with administering the Fund for the year ended 31 December, analysed by category is as follows:

	2007	2006
	£000	£000
Directors	187	201
Other Employees	2,319	2,163
	2,506	2,364

At the year end the Department's equivalent number of full time employees (FTE) is 123.88 (2006: 114.15).

Details of the Department's employees for whom their total remuneration, including pension benefits and overtime payments exceeded £70,000 for the year ended 31 December are as follows:

Remuneration	2007	2006
£70,000 to £89,999	4	4
£90,000 to £109,999	-	-
£110,000 to £129,999	1	-

The above costs include remuneration for the Social Security Fund, Health Insurance Fund and States of Jersey administered benefits - all of which are administered by the Social Security Department.

Staff costs include pension contributions of £300,232 (2006: £263,471) in respect of staff employed to administer the Fund who are members of the States of Jersey Public Employees' Contributory Retirement Scheme (PECRS).

PECRS membership is compulsory for all States of Jersey permanent employees 20 years of age and over.

Contributions made to the States of Jersey Public Employees' Contributory Retirement Scheme, are charged to revenue expenditure in the period they are incurred.

5. PENSION SCHEME

5.1 Public Employees' Contributory Retirement Scheme (PECRS)

PECRS is open to all public sector employees (excluding teachers) over 20 years of age. Membership is obligatory for all employees on a permanent contract and therefore those paid from the Social Security Fund.

The Scheme is managed by a Committee of Management established by the States of Jersey which has five subcommittees to investigate and report on complex technical issues.

The last published actuarial valuation of the Scheme by Hewitt Bacon & Woodrow as at 31st December 2004, dated 13th March 2006, indicated that the Scheme had an actuarial deficiency of £17.4 million at the effective date of the valuation. As at 31st December 2007, PECRS had a market value of £1,107 million (2006: £1,114 million). The States of Jersey contribution to the Scheme in 2007 was £30.2 million (2006: £39.6 million).

The Actuaries concluded that this deficiency was temporary in nature and that it could be carried forward to the next Actuarial Valuation.

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

5. PENSION SCHEME (continued)

Since the Social Security Department is unable to readily identify its share of the underlying assets and liabilities of PECRS, under FRS17, contributions to the scheme will be accounted for as if they were contributions to a defined contribution scheme.

PECRS is a final salary scheme but not a conventional defined benefit scheme as the employer is not responsible for meeting any ongoing deficiency in the scheme. As a result of that limitation on the States' responsibility as employer, the scheme deficit is disclosed but not recognised in the accounts of the States of Jersey.

The States of Jersey in agreeing P190/2005 on September 2005 have confirmed responsibility for the past service liability which arose from the restructuring of the PECRS arrangements with effect from 1 January 1988. This liability amounted to £122.9 million at 31 December 2007.

The provisions to address the past service liability include an increase in employers' contributions equivalent to 0.44% of members' salaries as from 1 January 2002, raising the employers' contribution rate to 15.6% of members' salaries. Of the employers' contribution rate of 15.6% of members' salaries, a sum initially equivalent to 2% of the employers' total pensionable payroll is paid into the Scheme to meet the pre-1987 past service liability. The remaining 13.6% of members' salaries continues to fund the current service liability.

Over 82 years (from 2002) the past service liability would thereby be repaid, at which point the employers' contribution rate would revert to 15.16% of members' salaries.

Copies of the latest Report and Accounts of the States of Jersey and the Public Employees' Contributory Retirement Scheme are available from the States' Greffe.

5.2 Additional information required by FRS 17

PECRS is a final salary scheme but not a conventional defined benefit scheme as the employer is not responsible for meeting any ongoing deficiency in the scheme. As a result of that limitation on the States' responsibility as employer, the scheme deficit is disclosed but not recognised in the accounts.

The Actuarial Valuation of PECRS was carried out at 31 December 2004. This valuation has been updated by Actuaries to 31 December 2007 in accordance with FRS 17, based on current obligations.

The assumptions and methodology required under FRS 17 differ considerably from the approach that has been used by the Actuaries of PECRS in providing Actuarial Valuations, used for funding purposes. These differences in methodology combined with the time which has elapsed since the latest Actuarial Valuation mean that the FRS 17 results are different to the position revealed in the latest formal published Actuarial Valuation.

The results of up to date Actuarial Valuations, rather than the results of the FRS 17 disclosures below, will be used to determine the quantum of any adjustments that may be needed to the benefits and contributions of the Fund.

Information on the scheme is presented in the accounts, reflecting the cost of the scheme to the employer. As the scheme limits the liability to the Fund, scheme surpluses or deficits are only recorded to the extent that they belong to the Social Security Fund.

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

5. PENSION SCHEME (continued)

The major assumptions used for the FRS 17 actuarial assessments at 31 December are:

	2007 % pa	2006 % pa
Discount Rate	5.8	5.1
Salary Inflation	4.7	4.4
Pension Increases	3.4	3.1
UK Price Inflation *	3.4	3.1

* Estimated Future UK price inflation is used as the best available proxy for estimated future Jersey price inflation. There is a risk that the UK rate may not accurately reflect Jersey's circumstances; as a consequence there is a risk that the resulting figures provided may be either over or understated.

The following table reflects the financial position of PECRS, including all admitted bodies other than Jersey Telecom Group Limited and Jersey Post International Limited.

On the FRS 17 basis, the assets and liabilities of the scheme are:

	2007 £000	Expected Return	2006 £000	Expected Return
Equities	1,083,731	7.6%	889,073	7.6%
Property	13,944	6.6%	-	6.6%
Cash/Other	9,411	5.9%	225,074	5.2%
Total Assets	1,107,086		1,114,147	
Total Liabilities	1,252,981		1,297,825	
Deficit	(145,895)		(183,678)	

The Net Profit and Loss Charge of the Fund is shown below:

	2007 £000	2006 £000
Service Cost	(39,997)	(43,860)
Past Service Cost	-	(270)
Total Operating Charge	(39,997)	(44,130)
Expected Return on Assets	73,098	68,576
Interest on Liabilities	(62,799)	(59,897)
Net Return	10,299	8,679
Net Profit and Loss charge	(29,698)	(35,451)

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

5. PENSION SCHEME (continued)

PECRS, whilst not a final salary scheme, is not a conventional defined benefit scheme as the employer is not responsible for meeting any ongoing deficiency in the scheme. Employer contributions are charged to revenue expenditure in the year they are incurred. As this scheme limits the liability of the States as the employer, scheme surpluses or deficits are only recorded within the States' accounts to the extent that they belong to the States.

The movement in deficit during the year as so disclosed is:

	2007 £000	2006 £000
Deficit in Scheme at beginning of year	(181,441)	(281,594)
Service Cost	(39,997)	(43,860)
Past Service Cost *	-	(279)
Contributions Paid	30,247	44,915
Other Finance Income	10,299	8,679
Actuarial Gain	34,997	88,461
Deficit in Scheme at the end of year	(145,895)	(183,678)

* The Past Service Cost is in respect of widowers' pensions being introduced in respect of post 1988 service.

The analysis of Total Recognised Gains and Losses (STRGL) during each year is:

	2007 £000	2006 £000
Actual Return less Expected Return on Assets	(13,948)	42,052
Experience (Loss)/Gain on Liabilities	(2,833)	15,097
Changes in Liability Assumptions	51,778	31,312
Actuarial Gain/(Loss)	34,997	88,461

The history of experience gains and losses is:

	2007		2006	
	£000	%	£000	%
Actual Return less Expected Return on Assets	(13,948)		42,052	
Percentage of Assets		1.3%		3.8%
Experience (Loss)/Gain on Liabilities	(2,833)		15,097	
Percentage of Liabilities		0.2%		1.2%
Actuarial Gain	34,997		88,461	
Percentage of Liabilities		2.8%		6.8%

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

6. SURPLUS OF INCOME OVER EXPENDITURE

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

	2007 £000	2006 £000
Auditors' fees	79	79
Depreciation	2,061	2,267
Rental income from third parties	(4)	(43)
Rental income from related parties	(95)	(95)
	2,041	2,208

7. TANGIBLE FIXED ASSETS

	Land, buildings and improvements £000	Fixtures and fittings £000	Computer development and network £000	Total £000
Cost				
At 1 January 2007	7,436	65	12,454	19,955
Additions	1,559	-	282	1,841
At 31 December 2007	8,995	65	12,736	21,796
Accumulated depreciation				
At 1 January 2007	2,300	65	5,060	7,425
Charge for the year	587	-	1,474	2,061
At 31 December 2007	2,887	65	6,534	9,486
Net book value				
At 31 December 2007	6,108	-	6,202	12,310
At 31 December 2006	5,136	-	7,394	12,530

Land situated at 28 to 32 La Motte Street, St Helier, Jersey has been purchased for the Social Security Fund with title to this property registered in the names of the "Attorney General and Greffier of the States on behalf of the Public of the Island".

In respect of the land & buildings, additions consisted of £1.559 million for costs associated with the refurbishment of upper floors of Huguenot House and the extension of the ground floor front office of Philip Le Feuvre House. Computer development and network additions relate to further enhancements to the development of the Social Security Computer System.

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

7. TANGIBLE FIXED ASSETS (continued)

During 2006, the property known as Huguenot House, which had previously been accounted for as Investment Property, was reclassified into Land and Buildings. This property was transferred at the current carrying value of £1.4 million which was deemed to be an appropriate cost. Depreciation is then charged on this deemed cost over the remaining useful life of the building.

8. DEBTORS

	2007 £000	2006 £000
Trade debtors:		
Contributors - individuals and employers	26,215	22,074
Beneficiaries paid in advance	6,653	4,535
Prepayments in respect of benefits paid and services provided as agent	2,012	3,027
Jersey Post - funds held for the payment of Pension Order books	205	130
Bank interest and other income	80	18
Amounts due from the Treasurer of the States in respect of supplementation, benefits paid and services provided as an agent	1,172	3,367
Other debtors	171	229
	36,508	33,380

Trade debtors include an amount of £27,000 (2006: £138,000) due after more than one year.

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

Contributions are due from smaller organisations (less than 80 employees) and employers for the fourth quarter and are stated net of the write off of bad debts, 2007: £91,200, (2006: £211,900).

As at 31 December the Fund provided for a bad debt provision of £123,396 (2006: £211,932). This was made for those contributors entering into an instalment agreement with the department.

	2007 £000	2006 £000
Up to 3 months	27	51
3 to 6 months past due	3	9
6 to 12 months past due	15	33
Over 12 months past due	78	119
	123	212

The Fund considers that none of the above are impaired.

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

8. DEBTORS (continued)

As at 31 December, trade debtors of carrying value £36.5 million (2006: £33.4 million) which are past their due date but not impaired. The ageing is shown below:

	2007 £000	2006 £000
Up to 3 months	36,451	33,188
3 to 6 months past due	9	25
6 to 12 months past due	21	29
Over 12 months past due	27	138
	36,508	33,380

9. CREDITORS

(amounts falling due within one year)

	2007 £000	2006 £000
Funds uncleared at bank	3,419	1,834
Loan payable: Health Insurance Fund	6,219	6,965
Trade creditors:		
Amounts due to the Treasurer of the States in respect of benefits paid and services provided as an agent	2,144	2,403
Amounts payable in respect of benefits paid and services provided as an agent	66	55
Benefits payable	375	467
Capital expenditure	369	-
Other creditors	233	397
	12,825	12,121

The Minister considers that the carrying amount of the trade creditors approximates to their fair value. The loan payable to the Health Insurance Fund is unsecured, interest free and repayable on demand.

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

9. CREDITORS (continued)

Maturity of financial liabilities:

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

	Other financial liabilities £000	2007 £000	2006 £000
Up to 3 months	12,818	12,818	12,085
3 to 6 months past due	2	2	27
6 to 12 months past due	5	5	9
Over 12 months past due	32	32	32
	12,857	12,857	12,153

10. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2007 £000	2006 £000
Other creditors	32	32

11. REVALUATION RESERVES

	2007 £000	2006 £000
As at 1 January and 31 December	719	719

12. REVENUE RESERVES

	2007 £000	2006 £000
As at 1 January	57,613	61,648
Transfer to Social Security (Reserve) Fund	(21,600)	(31,700)
Retained surplus for the year	32,615	27,665
As at 31 December	68,628	57,613

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

13. RELATED PARTY TRANSACTIONS

The Fund has the following commercial, arm's length relationships with the following States bodies:

(a) Jersey Post International Limited

The States of Jersey hold all the ordinary shares in Jersey Post International Limited which became incorporated on 1 July 2006.

The Fund pays Jersey Post Limited for the beneficiaries who hold a pension order book or cash open cheque benefit payments. For this service Jersey Post Limited receives an administration fee as noted in the table below.

(b) Jersey Telecom Group Limited

The States of Jersey hold all the ordinary shares and 9% cumulative preference shares in the Jersey Telecom Group Limited.

The Fund pays Jersey Telecom Limited for services relating to telecommunications as noted in the table below.

(c) Jersey Electricity Company Limited

The States of Jersey hold all the ordinary shares in the Jersey Electricity Company Limited which represents 54% of the Company's total share capital as at 31 December 2007.

The Fund pays Jersey Electricity Company Limited for the supply of heat, light and power.

(d) States of Jersey Treasury and Resources and other States Departments

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

Payments made in the year to 31 December to these related parties are shown below:

	2007	2006
	£000	£000
Jersey Post International Limited	179	225
Jersey Telecom Group Limited	8	18
Jersey Electricity Company Limited	35	26
States of Jersey Treasury and Resources and other States Departments	155	140
	377	409

Management and control of the Fund resides with the Minister for Social Security. Ownership of the Fund resides with the contributors and beneficiaries on a mutual basis.

The Fund receives income (States' contribution) from the States of Jersey to supplement the contributions of earners who fall below the earnings ceiling but above the lower earnings threshold (2007: £58,627,017; 2006: £56,566,578).

Staff employed by the States of Jersey who administer the Social Security Fund are also involved with the administration of States Funded Benefits and services related to employment. Where this administration is undertaken on premises owned by the Fund, a rental charge for the use of the premises is levied to the States of Jersey (2007: £85,300; 2006: £85,300).

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

13. RELATED PARTY TRANSACTIONS (continued)

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

	2007	2006
	£000	£000
States Funded Benefits	39,973	36,266
Services Related to Employment	2,507	3,114
	42,480	39,380

Full details of all States Funded benefits and services administered by the Social Security Department can be found in the States of Jersey "Financial Report and Accounts 2007". Copies of the report will be available from the States Greffe.

Related party balances at the year end:

	2007	2006
	£000	£000
Amounts due to related parties:		
Treasurer of the States	2,238	2,605
Jersey Telecom Group Limited	3	3
Jersey Electricity Company Limited	3	3
Jersey Post International Limited	12	58
	2,256	2,669
Amounts due from related parties:		
Treasurer of the States	1,172	3,367
Jersey Post International Limited	205	130
	1,377	3,497

The Health Insurance Fund does not operate a bank account, other than fixed deposit accounts. Consequently all receipts and payments in relation to the Health Insurance Fund are made through nominated Social Security Fund bank accounts due to their relationship in respect of social security contributions and then reallocated to the loan accounts as appropriate.

During the year the Social Security Department made net payments from its bank accounts of which the Social Security Fund is part to the Health Insurance fund of £0.746m (2006: (£4.361m)). At the year end the Health Insurance Fund was owed £6.219m (2006: £6.925m).

The Social Security (Reserve) Fund is the investment vehicle by which contribution rate and ceiling changes are smoothed over time. The accounting officer of the Social Security (Reserve) Fund is the Treasurer of the States. Payments made in the year from the Fund were £21.6m (2006: £31.7m), additionally the Social Security (Reserve) Fund appropriated £5.983m (2006: £7.593m) to the Fund.

Social Security Fund

Notes to the Financial Statements for the year ended 31 December 2007

14. RECONCILIATION OF SURPLUS TO NET CASH FLOW

	2007 £000	2006 £000
Surplus of income over expenditure for the year	38,598	35,258
Net income from Social Security (Reserve) Fund	(5,983)	(7,593)
Depreciation	2,061	2,267
Increase in debtors	(3,066)	(5,896)
(Decrease)/increase in creditors	(1,250)	3,558
Bank interest	(1,513)	(1,528)
Rent	(99)	(138)
	28,748	25,928

15. ANALYSIS OF CHANGES IN NET FUNDS

	At 31 December 2006 £000	Cash Flows £000	At 31 December 2007 £000
Cash at bank	1,825	461	2,286
Funds uncleared at bank	(1,834)	(1,585)	(3,419)
	(9)	(1,124)	(1,133)
Liquid resources	22,750	8,350	31,100
Net funds	22,741	7,226	29,967

16. RESTATEMENT OF COMPARATIVES

A number of comparative figures have been restated to ensure that the comparative information is comparable to the current year's results. These are detailed below and have had no impact on the Fund's reserves.

Cash at bank and in hand

In prior periods cash held on 30 and 60 days deposit was treated as current asset investments. UK GAAP requires the deposits to be classified as 'Cash at bank and in hand' and has therefore been included as such on the Balance Sheet. At the year end the value of deposits at the bank was £31.1m (2006: £22.75m).

Accumulated surplus from the Social Security (Reserve) Fund

In accordance with the Social Security Law, 1974, the net revenue return of the Social Security (Reserve) Fund is transferred to the Fund at the end of the financial year. In prior periods the transfer to the Social Security (Reserve) Fund was accounted for in the income and expenditure account. Given the nature of the transfer it is more appropriate to disclose this transfer in the Statement of Total Recognised Gains and Losses. The value of the transfers during the year were £25.583m (2006: £39.293m).

17. ULTIMATE CONTROLLING PARTY

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

Social Security (Reserve) Fund

Statement of Total Return for the year ended 31 December 2007

	Notes	2007		2006 (as restated)	
		£000	£000	£000	£000
Income	(2)				
Net gains on investments during the year			31,005		45,177
Investment income		8,007		9,727	
Bank interest		269		398	
Expenditure	(2)				
Investment management and custodian fees		(1,209)		(1,425)	
Irrecoverable withholding tax		(1,006)		(1,056)	
Other expenses		(78)		(51)	
Net Income			5,983		7,593
Total return			36,988		52,770
Appropriated to Social Security Fund			(5,983)		(7,593)
Total return after appropriation to Social Security Fund			31,005		45,177

Statement of changes in Net Assets for the year ended 31 December 2007

	2007	2006
	£000	(as restated) £000
Net assets at the start of the year (as previously stated)	583,348	498,878
Prior year adjustment (as explained in note 15)	(252)	-
Net assets at the start of the year (as restated)	583,096	498,878
Change in net assets before appropriation to Social Security Fund	36,988	52,770
Funds received from Social Security Fund	21,600	31,700
Net assets at the end of the year	641,684	583,348

The notes on pages 39 to 50 form an integral part of these financial statements

Social Security (Reserve) Fund

Portfolio Statement as at 31 December 2007

	Holding Units	Market Value 31-Dec-07 £000	Percentage of Total Net Assets %
Unit Trust Bonds			
Overseas bond index	21,847,094	33,975	5.29
All stock gilts index	10,343,823	34,235	5.34
		68,210	10.63
Unit Trust Equities			
UK equity index	35,960,601	255,062	39.75
North America equity	19,405,808	127,884	19.93
Europe equity index	10,995,632	92,324	14.39
Money market	48,586,686	61,404	9.57
Japan equity index	26,551,318	23,822	3.71
Asia Pacific (ex-Japan) development equity index	1,590,540	12,659	1.97
		573,155	89.32
Portfolio of investments		641,365	99.95
Net current assets		319	0.05
Net assets		641,684	100

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

Social Security (Reserve) Fund

Balance Sheet as at 31 December 2007

	Notes	2007		2006	
		£000	£000	£000	£000
				(as restated)	
Fixed Assets					
Financial assets at fair value	(9)		641,365		572,450
Current Assets					
Account receivables	(12)	10		525	
Cash at bank		499		10,951	
		509		11,476	
Account payables: amounts falling due within one year	(13)	190		578	
Net Current Assets			319		10,898
Net Assets			641,684		583,348
Represented by:					
Net Assets attributable to the Fund			641,684		583,348

The notes on pages 39 to 50 form an integral part of these financial statements

Social Security (Reserve) Fund

Summary of material portfolio changes as at 31 December 2007

Major purchases Name	Holding Units	Cost £000
Legal & Gen N Uk Eq Idx	20,183,827	137,436
Legal & General Europe (Ex-Uk) Equity Index	9,486,197	72,445
Legal & General N America Equity (Net US)	9,889,943	62,121
Legal And General 2151 PMC Money Market Fund	46,869,802	58,314
Legal And General Japan Equity (Net Wht)	23,867,326	22,221
Legal & General Asia Pacific Ex Japan Dev Equity Index	873,479	5,827
HSBC Hldgs Ord USD 0.50 (Uk Reg)	429,700	4,082
Legal & General All Stocks Gilt Index	1,094,943	3,465
Legal & Gen Overseas Bd Index	2,218,973	3,050
Royal Dutch Shell 'B'Ord Eur 0.07	101,774	1,788
Legal And General 2151 PMC Money Market Fund	1,239,787	1,542
Scot & Sthn Energy Ord GBP 0.50	101,900	1,481
Legal & General All Stocks Gilt Index	469,201	1,475
Legal & Gen Overseas Bd Index	927,943	1,325
Unilever Nv Cva Eur 0.16	98,200	1,296
Legal & General N America Equity (Net US)	194,428	1,225
Friends Provident Ord GBP 0.10	553,206	1,217
Signet Group Ord USD 0.009	1,030,000	1,203
Sanofi-Aventis EUR 2	27,500	1,202
Brocade Communications Systems	226,500	987
All other purchases		76,736
Total purchases for the year		460,438

The notes on pages 39 to 50 form an integral part of these financial statements

Social Security (Reserve) Fund

Summary of material portfolio changes as at 31 December 2007

Major sales Name	Holding Units	Proceeds £000
Legal & General Europe (Ex-Uk) Equity Index Total	3,803,440	29,000
Royal Dutch Shell B'Ord EUR 0.07	471,676	8,655
Legal And General Japan Equity (Net Wht)	8,622,901	8,000
Vodafone Group Ord USD 0.11428571	4,742,223	7,497
Sanofi-Aventis Eur2	184,700	7,359
BAE Systems Ord GBP 0.025	1,705,200	7,358
Imperial Chem Inds Ord GBP 1	1,046,900	6,669
Astrazeneca Ord USD 0.25	275,334	6,495
Royal Dutch Shell 'A'Shs EUR 0.07 (Dutch List)	325,600	5,988
HBOS PLC Ord 25P	664,300	5,945
Friends Provident Ord GBP 0.10	3,231,741	5,901
HSBC Hldgs Ord USD 0.50 (Uk Reg)	637,500	5,651
Lloyds TSB Group Ord GBP 0.25	937,210	5,047
Daily Mail&Gen Tst 'A'Ord(Non Vtg) GBP 0.125	705,800	4,789
Reuters Group Ord GBP 0.25	746,100	4,559
Nestle Sa CHF 1 (Regd) Total	21,033	3,931
Scot & Sthn Energy Ord GBP 0.50	269,900	3,884
Aviva Ord GBP 0.25	511,000	3,528
Novartis Ag CHF 0.50 (Regd)	128,363	3,412
Invensys Ord GBP 0.10	999,908	3,395
All other sales		285,215
Total sales for the year		422,278

The notes on pages 39 to 50 form an integral part of these financial statements

Social Security (Reserve) Fund

Notes to the Financial Statements for the year ended 31 December 2007

1. GENERAL INTRODUCTION

Fund purpose

The number of recipients of a State pension as a percentage of the working population is expected to increase over time. The purpose of the Social Security Reserve Fund (the "Reserve Fund") is to build up a reserve for the future provision of pension benefits for those in employment so as to reduce the impact of pensions in future generations, as well as to smooth contributions for social security benefits over time. To achieve these objectives, the Reserve Fund's assets and liabilities comprise financial instruments held in accordance with its investment objectives and policies. These may include:

- (a) Investments including equity and non-equity shares, fixed income securities and floating securities.
- (b) Cash, liquid resources and short term debtors and creditors that arise directly from the investment activities.
- (c) Hedging instruments such as forward exchange contracts and traded options which the Reserve Fund may enter into, for the purpose of managing the risks arising from the Reserve Fund's investment activities.

Strategy

Excess funds held in the Social Security Fund are transferred to the Reserve Fund for investment on a quarterly basis. A high income yield is not a requirement of the investment policy of the Reserve Fund. The latest Actuary report states it is expected that there will be no requirement to draw on the assets of the Reserve Fund for at least a decade and during this period there will be net inflows to the Reserve Fund.

As the Reserve Fund is expected to be in a net inflow position for the next decade, a high proportion of the assets have been placed in return seeking investments in order to maximise the longer term size of the Reserve Fund. Since the Reserve Fund is effectively a buffer to deal with the longer term funding of pensions, there are no requirements for controlling volatility in asset values from year to year. This means that the need for risk reducing assets can be minimised.

Investment Objectives

The current investment objectives of the Reserve Fund are:

- (a) to maintain the Reserve Fund's asset distribution close to the benchmark and to maintain its portfolio within the control ranges set out below:

	Benchmark	Actual
	%	%
Total Equities	80.0	79.8
UK Equity Index	40.0	39.8
North America Equity Index	20.0	19.9
Europe Equity Index	14.0	14.4
Japan Equity Index	4.0	3.7
Asia Pacific Developed Equity Index	2.0	2.0
Total Cash/Bonds	20.0	20.2
All Stocks Index	5.0	5.3
Overseas Bond Index	5.0	5.3
Money Market	10.0	9.6
Total	100.0	100.0

Social Security (Reserve) Fund

Notes to the Financial Statements for the year ended 31 December 2007

1. GENERAL INTRODUCTION (continued)

(b) to track the total return of the relevant market index, within specified tolerances and after allowances for withholding tax where applicable, for each of the sector funds in which the Reserve Fund is invested.

(c) for the Money Market fund, through judicious stock selection and credit premium analysis, to exceed the 3 month LIBID return by 0.2% per annum before deduction of fees.

The Reserve Fund's assets are managed by investing in the pooled funds as set out under (a) above.

The distribution of the investments within the Reserve Fund is maintained within its control ranges by the application of cash flows and where necessary, switches between the investment sector funds.

Performance Management

The accounting officer of the Reserve Fund is the Treasurer of the States. The Reserve Fund is performance managed by the Treasury and Resources Department through a Committee chaired by the Minister for Treasury and Resources which is attended by the Minister for Social Security. Committee members meet six monthly to oversee the performance of the Reserve Fund and are assisted by Hewitt Bacon & Woodrow Limited, investment advisers.

The assets of the Reserve Fund are held with a global custodian, Northern Trust. The Northern Trust arrangements result in complete separation of the custody of the invested assets and the investment management arrangements as providing comprehensive services for the Reserve Funds.

Fund Performance

Performance of the Reserve Fund over the last 12 months is as follows:

Investment Sector	3 Months		12 Months	
	Fund %	Dev %	Fund %	Dev %
UK Equity Index	(0.4)	(0.1)	5.3	0.0
North America Equity Index	(0.6)	0.0	5.4	0.1
Europe Equity Index	3.0	0.0	15.6	0.3
Japan Equity Index	(3.4)	0.0	(6.3)	0.2
Asia Pacific Developed Equity Index	2.0	0.0	34.9	0.7
All Stocks Index	4.4	0.0	5.2	(0.1)
Overseas Bond Index	6.5	(0.1)	9.2	(0.1)
Money Market	1.2	(0.4)	n/a	n/a

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

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

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

Social Security (Reserve) Fund

Notes to the Financial Statements for the year ended 31 December 2007

2. ACCOUNTING POLICIES (continued)

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

UK GAAP Disclosures

The Department has considered the disclosure requirements under UK GAAP and as a consequence a number of comparative figures have been restated, details of which are set out under note 18.

The Department has adopted FRS 26, 'Financial Instruments: Recognition and Measurement'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. The market value of the financial assets at fair value was calculated using the mid-price on the securities held. FRS 26 requires the investments to be carried using the bid-price and consequently the comparative values have been restated. The prior year adjustment is explained in note 15.

The Department has adopted FRS 29, 'Financial Instruments: Disclosures'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. There is no prior year adjustment to reserves resulting from adopting this standard, as its provisions relate to disclosure.

2.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

2.3 Income

(a) Investment income

Investment income consists of income from fixed interest securities, dividends and bank interest. Income from fixed interest securities and bank interest are accrued to the year end. Dividends from other quoted securities are accrued when the securities are quoted ex-dividend.

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

(b) Bank Interest Received

Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate.

2.4 Accrued interest

Accrued interest is recognised initially at fair value and subsequently stated at amortised cost.

Social Security (Reserve) Fund

Notes to the Financial Statements for the year ended 31 December 2007

2. ACCOUNTING POLICIES (continued)

2.5 Investments

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

Sales and Purchases of investments are recognised on their trade date, the date on which the Reserve Fund commits to purchase or sell the investment. Purchases are recognised at the market value of the consideration received. Sales are recognised on the settlement date and proceeds are calculated using the market value of the investment on that date. The profit or loss of units sold is calculated based on the market value of the consideration on the trade date compared with the average cost of the units, which is calculated by aggregating the historic transactions within the pooled funds. Any profit or loss resulting from this transaction is recognised within the Statement of Total Return.

The valuation of the investment units held in the pooled funds is based on the closing bid market prices of the units as confirmed by valuations received from the investment manager. These valuations are based on the bid prices of the underlying investments held by the investment manager for the pooled fund.

2.6 Cash at Bank and in Hand

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

2.7 Accrued expenses

Accrued expenses are initially measured at fair value and are subsequently measured at amortised cost.

2.8 Expenses

(a) Investment management and custodian fees

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

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

(b) Irrecoverable withholding tax

Irrecoverable withholding taxes from overseas dividends are reported separately as an expense.

(c) Other expenses

Other expenses include service and operating costs and consist of audit fees, custodian fees, recharges from the States of Jersey, Treasury & Resources Department and costs of exchange rate transfers.

2.9 Taxation

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

2.10 Cash flow statement

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

Social Security (Reserve) Fund

Notes to the Financial Statements for the year ended 31 December 2007

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

Investments

(a) Classification

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

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

(b) Recognition

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

(c) Measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the income statement. Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement within investment income when the Reserve Fund's right to receive payments is established. Specifically, dividend income is accrued on securities when they are quoted ex-dividend.

(d) Fair value estimation

There is a change in the basis of valuation of investments held at the year end from mid-price to bid-price following the requirements of the SORP.

The valuation of the investments in the pooled funds is based on the closing bid market prices of the units as confirmed by valuations received from the investment manager. These valuations are based on the bid prices of the underlying investments held by the investment manager in the pooled funds.

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

Other Assets and Liabilities

The Reserve Fund classifies its debtors and cash at bank as 'Loans and Receivables'. The financial liabilities are classified as 'Other financial liabilities'.

Accrued interest

Accrued interest is measured at initial recognition at fair value and subsequently at amortised cost.

Social Security (Reserve) Fund

Notes to the Financial Statements for the year ended 31 December 2007

3. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Cash at Bank

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

Accrued expenses

Accrued expenses are measured at initial recognition at fair value and subsequently at amortised cost.

4. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

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

Risk management is carried out by the Treasury and Resources Department through a Committee chaired by the Minister for Treasury and Resources which is attended by the Minister for Social Security. Committee members meet six monthly to oversee the performance of the Reserve Fund and are assisted by Hewitt Bacon & Woodrow Limited, investment advisers. The Committee identifies and evaluates financial risks in close co-operation with the Reserve Fund's operating units. The Committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk; interest rate risk; credit risk and investment of excess liquidity.

The assets of the Reserve Fund are held with a global custodian, Northern Trust.

(a) Market Risk

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

(i) Foreign exchange risk

The Reserve Fund purchases securities denominated in a currency other than sterling and hence takes a position in other currencies. A substantial portion of the financial assets of the Reserve Fund is denominated in currencies other than sterling with the effect that the balance sheet and total return can be significantly affected by currency movements. The Reserve Fund manager monitors the exchange rate risk to limit the level of foreign exchange exposure and ensures the necessary policies and procedures are in place to manage it.

(ii) Fair value interest rate risk

The Reserve Fund receives income from its various investments and fixed bank deposit accounts. These cash flows are primarily fixed in nature. They are derived from the securities held in portfolio of the Reserve Fund which may be varied from time to time in accordance with its investment objective and policy. This is negligible risk to the Reserve Fund in terms of fair value interest rate risk.

Social Security (Reserve) Fund

Notes to the Financial Statements for the year ended 31 December 2007

4. FINANCIAL RISK MANAGEMENT (continued)

(iii) Price risk

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

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

There is no exposure to commodity price risk.

(b) Credit risk

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

Separate risk assessment has been undertaken in respect of the assets which are under the control of L&G. L&G is the largest manager of UK pension fund assets with a total of £296 billion under their management and £189 billion invested in index funds for corporate pension schemes with a credit rating of AA+. In total they manage 2,961 pension fund clients. The ultimate holding company of L&G is Legal & General Group plc. The Minister therefore considers the exposure to credit risk is minimal.

(c) Liquidity risk

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

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

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

5. CAPITAL RISK MANAGEMENT

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

Social Security (Reserve) Fund

Notes to the Financial Statements for the year ended 31 December 2007

6. NET GAINS/(LOSSES) ON INVESTMENTS

The net gains/(losses) on investments during the year comprise:

	2007 £000	2006 £000
Proceeds from sales of investments during the year	422,278	193,495
Original cost of investments sold during the year	(375,837)	(150,921)
Gains/(losses) realised on investments sold during the year	46,441	42,574
Net appreciation thereon already recognised in earlier periods	(122,321)	(119,718)
Net realised depreciation for the year	(75,880)	(77,144)
Net unrealised appreciation for the year	106,885	122,321
Net gains/(losses) on investments	31,005	45,177

7. INCOME

	2007 £000	2006 £000
UK dividends	4,912	6,533
Overseas dividends	3,092	3,188
Scrip dividends	3	6
Bank interest	269	398
Total income	8,276	10,125

8. INVESTMENT MANAGEMENT AND CUSTODIAN FEES

The Investment managers, Capital International and Legal and General are entitled to fees as follows:

Capital International (agreement terminated August 2007)

Global / Regional Equity Fee (incremental Annual Fee rate as a percentage of Market Value)

On the first £17.5 million	0.700 of 1%
£17.5 million to £35 million	0.550 of 1%
£35 million to £175 million	0.425 of 1%
Over £175 million	0.375 of 1%

	2007 £000	2006 £000
Actual fees paid in the year	£810,832	£978,982

Social Security (Reserve) Fund

Notes to the Financial Statements for the year ended 31 December 2007

8. INVESTMENT MANAGEMENT AND CUSTODIAN FEES (continued)

Legal and General ~ Unit Trusts (percentage fees paid per annum)		
UK Equity Index Fund	0.0525%	
North America Equity Index Fund	0.08%	
Japan Equity Index Fund	0.15%	
Europe (Ex-UK) Equity Index Fund	0.125%	
Asia Pacific (ex-Japan) Developed Equity Index Fund	0.20%	
All Stocks Gilts Index Fund	0.04%	
Overseas Bond Index fund	0.08%	
Cash Fund	0.075%	
	2007	2006
Actual fees paid in the year	£320,965	£165,323

The Global Custodian is entitled to:

The Northern Trust Corporation		
Base Charge per Investment Manager	£1,000 per account per annum	
Asset Based Fees are charged at between 1 to 110 basis points		
A separate charge of £20 will be levied for clean payments in respect of third party fixed deposits and foreign exchange. Fixed fee chargeable at £3,000 per annum.		
	2007	2006
Actual fees paid in the year	£76,967	£69,700

Social Security (Reserve) Fund

Notes to the Financial Statements for the year ended 31 December 2007

9. INVESTMENTS

Movements in the investments during the year are detailed below:

	Value at 01-Jan-07 (as previously stated) £000	Prior Year Adjustment (note 15) £000	Value at 01-Jan-07 (as restated) £000	Purchases at Cost £000	Proceeds of Sales £000	Changes in market value £000	Value at 31-Dec-07 £000
Equities							
United Kingdom	137,107	(79)	137,028	30,376	164,820	(2,584)	-
Europe	72,805	(66)	72,739	29,768	103,338	831	-
North America	59,864	(44)	59,820	19,578	77,486	(1,912)	-
Japan	20,162	(48)	20,114	5,522	24,918	(718)	-
Pacific Basin, excluding Japan	5,909	(15)	5,894	1,371	7,566	301	-
	295,847	(252)	295,595	86,615	378,128	(4,082)	-
Unit Trusts							
Unit Trust Bonds							
Global	26,664	-	26,664	4,375	-	2,936	33,975
United Kingdom	26,830	-	26,830	5,740	-	1,665	34,235
	53,494	-	53,494	10,115	-	4,601	68,210
Unit Trust Equities							
United Kingdom	109,372	-	109,372	198,686	3,905	12,314	316,467
Other Europe	39,652	-	39,652	72,445	30,075	10,302	92,324
North America	57,397	-	57,397	64,356	-	6,131	127,884
Japan	10,687	-	10,687	22,396	8,000	(1,262)	23,821
Pacific Basin, excluding Japan	6,002	-	6,002	5,826	2,170	3,001	12,659
	223,110	-	223,110	363,709	44,150	30,486	573,155
	572,451	(252)	572,199	460,439	422,278	31,005	641,365

Indirect costs including the bid offer spread costs have been added to the purchase cost or deducted from sale proceeds as appropriate. Total transaction costs incurred on the purchase and sale of investments were £320,723 of which £161,813 was in respect of Brokers Commission and £158,910 in respect of Registration Fees, Stamp Duties, Security Exchange Fees levies from Regulatory Agencies and Commissions to Advisers.

Social Security (Reserve) Fund

Notes to the Financial Statements for the year ended 31 December 2007

10. INVESTMENT TRANSACTION

Following a decision of the Performance Committee, chaired by the Minister for Treasury and Resources, to re-organise the investment management arrangements and terminate Capital International's investment mandate, the Reserve Fund's assets were derecognised by Capital International Limited and L&G acquired a pooled fund policy.

As the investments are classified as fair value through profit or loss, the movements have been recognised within the Statement of Total Return under "net gains on investments during the year".

11. ACCOUNT RECEIVABLES

	2007 £000	2006 £000
Accrued interest	10	468
Pending sales settlements	-	57
	10	525

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

The ageing of the account receivables is within 3 months.

12. ACCOUNT PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £000	2006 £000
Administration charges	36	41
Management fees	154	377
Pending purchase settlements	-	160
	190	578

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

All the Reserve Funds liabilities are 'other financial liabilities' and are payable in less than one year and given their nature a maturity analysis is not considered to be necessary.

13. TRANSFERS FROM THE SOCIAL SECURITY FUND

	2007 £000	2006 £000
Total Funds transferred from the Social Security Fund during the year	21,600	31,700

In accordance with the Social Security (Jersey) Law 1974, the net revenue return on the Social Security (Reserve) Fund is transferred to the Social Security Fund at the end of the financial year. Excess funds held by the Social Security Fund are transferred to the Social Security (Reserve) Fund and credited to the Accumulated Surplus.

Social Security (Reserve) Fund

Notes to the Financial Statements for the year ended 31 December 2007

14. RELATED PARTY TRANSACTIONS

The Treasurer of the States of Jersey is the Accounting Officer of the Social Security (Reserve) Fund and the Financial Statements are completed by the Treasury & Resources Department.

During the year ended 31 December 2007 an amount of £12,530 (2006: £24,000) was paid from the Reserve Fund to the Treasury Department in respect of the services provided.

No other related party transactions existed.

15. RESTATEMENT OF COMPARATIVES

A number of comparative figures have been restated to ensure that the comparative information is comparable to the current year's results. These are detailed below which have had no impact on the Reserve Fund's reserves.

Prior year adjustment

The financial statements have been restated due to a change in accounting policy relating to financial instruments. The Reserve Fund did not account for its financial investments in accordance with FRS 26: Financial instruments: recognition and measurement. In prior periods the Quoted Investments were carried at mid-market price, whereas FRS 26 requires them to be carried at bid-price. The financial impact of the re-statement has been a reduction in the carrying value of the investments of £252,273 and a reduction in the movement of the unrealised gain of an equivalent amount.

16. POST BALANCE SHEET EVENTS

In accordance with FRS 21, the Minister is required to disclose non-adjusting events that are indicative of conditions that have arisen after the balance sheet date. The market value of the Reserve Fund investments at 31 December 2007 stood at £641,364,094 (refer note 9). Since that date, there have been further deposits into the pooled investments of £30,000,000. As at 30 September 2008, the market value of the investments stood at £578,950,716, which is indicative of the turbulence in the world's financial markets over the last nine months.

17. ULTIMATE CONTROLLING PARTY

The Treasurer of the States is the Accounting Officer of the Reserve Fund. The Reserve Fund is performance managed by the Treasury and Resources Department through a committee chaired by the Minister for Treasury and Resources of which the Minister of Social Security is a member. Under the Social Security (Jersey) Law, 1974, the Minister of Social Security is responsible for reporting the financial statements of the Reserve Fund.

Health Insurance Fund

The funding principles of the Health Insurance Fund

The Health Insurance Fund is financed on the “Pay-as-you-go” basis, with the expenditure on benefits and administration being met from current income.

Under the Health Insurance Exception Scheme, persons of limited means who are not potentially employable may be eligible to receive medical services from general medical practitioners and medicines without charge. These arrangements apply only to people who were born locally or have resided in the Island for at least five consecutive years.

Independent actuarial reviews of the scheme are undertaken every five years, the latest report being as at 31 December 2002, the next report will be for the period to 31 December 2007.

This report for 2002 concluded –

- The financial position of the Fund remains sound.
- The current financial objective set for the Fund is that it should represent at least one year's expenditure.
- As the population ages, benefit expenditure will increase relative to contribution income.

The Fund has shown a continued improvement in its financial position, reflecting the fact that contribution income has grown more strongly than benefit expenditure. Based on the assumptions in the report, the balance in the Fund is projected to continue to grow, reaching a peak in 2012 equivalent to nearly 2½ years' expenditure (excluding that financed by the States vote). As at 31 December 2007, the Fund represented over three years benefit expenditure based on current expenditure levels. However, each year the scheme spends up to approximately three quarters of the money it collects, and any significant changes in the parameters of the scheme would result in a substantially different financial picture, along with a rapid impact on contribution levels.

Copies of the latest actuarial report will be available from the States' Greffe.

Health Insurance Fund

Statement of the responsibilities of the Social Security Minister of the States of Jersey in respect of the Financial Statements

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

In preparing the financial statements, the Minister is required to:

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

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

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

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

Health Insurance Fund

Independent Auditor's Report to the Minister for Social Security

I have audited the financial statements of the Health Insurance Fund which comprise the income and expenditure account, the balance sheets, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Minister and auditors

As described in the Statement of the Minister's Responsibilities, the Minister is responsible for the preparation of the financial statements in accordance with applicable Jersey law and United Kingdom Accounting Standards.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Minister in accordance with the Health Insurance (Jersey) Law 1967 and for no other purpose. I do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by my prior consent in writing.

I report to you my opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Health Insurance (Jersey) Law 1967. I also report to you if, in my opinion, the Minister's report is not consistent with the financial statements, if the company has not kept proper accounting records, or if I have not received all the information and explanations I require for the audit.

I have read the other information contained in the Annual Report and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Minister's report and the statistical appendices.

Basis of audit opinion

I have conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Minister in the preparation of the financial statements, and of whether the accounting policies are appropriate to the funds' circumstances, consistently applied and adequately disclosed.

I planned and performed the audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements give a true and fair view, in accordance with United Kingdom Accounting Standards, of the state of the funds' affairs as at 31 December 2007 and of their transactions and cash flow for the year then ended and have been properly prepared in accordance with the Health Insurance (Jersey) Law 1967.



C. Swinson, OBE,
Comptroller & Auditor General
Morier House, Halkett Place, St Helier, JE1 1DD
18th November 2008

Health Insurance Fund

Income and Expenditure Account for the year ended 31 December 2007

	Notes	2007 £000	2006 £000
INCOME	(1)		
Contributions		25,507	23,610
States contribution		1,276	1,218
Bank interest		2,986	1,997
Pharmaceutical discounts		149	121
		29,918	26,946
EXPENDITURE	(1)		
Benefits			
Medical		5,216	5,206
Pharmaceutical		9,681	9,171
		14,897	14,377
Health Insurance Exceptions			
Medical		1,135	1,125
Pharmaceutical		2,054	1,919
		3,189	3,044
Gluten free food vouchers		124	113
		18,210	17,534
Administration expenses			
Staff	(4)	452	440
Other administrative expenses		599	489
		1,051	929
		19,261	18,463
Surplus of income over expenditure for the year		10,657	8,483

Statement of Total Recognised Gains and Losses

There are no recognised gains and losses other than the profit for the year. A separate statement of total recognised gains and losses has therefore not been prepared.

Continuing Operations

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

Note of Historical Cost Profit and Losses

There are no material differences between the surplus of income over expenditure for the year and the retained surplus for the year stated above and the historical cost equivalents.

The notes on pages 57 to 69 form an integral part of these financial statements.

Health Insurance Fund

Balance Sheet as at 31 December 2007

	Notes	2007 £000	2006 £000 (as restated)
Current Assets			
Debtors	(6)	11,520	10,852
Cash at bank and in hand		53,000	43,000
		64,520	53,852
Creditors: amounts falling due within one year	(7)	1,085	1,074
Net Assets		63,435	52,778
Funds Employed			
Revenue reserves	(8)	63,435	52,778

The financial statements on pages 54 to 69 were approved by the Social Security Minister, Senator P.F. Routier on 14th November, 2008.



Senator P. F. Routier

The notes on pages 57 to 69 form an integral part of these financial statements.

Health Insurance Fund

Cash Flow Statement as at 31 December 2007

	Notes	2007 £000	2006 £000
Operating Activities			
Net cash inflow from operating activities	(10)	10,000	4,000
Management of Liquid Resources			
(Increase) in money held on deposit		(10,000)	(4,000)
(Decrease)/increase in cash in year	(11)	–	–

Reconciliation of Net Cash Flow to Movement in Net Funds

		2007 £000	2006 £000
Cash used to increase liquid resources		10,000	4,000
Change in Net Funds		10,000	4,000
Net Funds at 1 January		43,000	39,000
Net Funds at 31 December	(11)	53,000	43,000

The notes on pages 57 to 69 form an integral part of these financial statements.

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

1. ACCOUNTING POLICIES

1.1 Basis of Preparation

The financial statements are prepared on the historical cost convention, in accordance with UK GAAP, so far as it is applicable to these financial statements. In the absence of any detailed guidance on the required format of financial statements we have referred to the UK Government's Financial Reporting Manual for Government entities. The Manual considers the question of accounting for specialised funds and requires that their presentation is agreed on a case by case basis with the relevant authority, which under the Health Insurance (Jersey) Law 1967 is the Minister for Social Security. The Minister considers that the format contained within these financial statements is the most appropriate to the circumstances of the Health Insurance Fund (the "Health Fund").

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

FRS 17 sets out the standards for sponsors of occupational pension schemes to account for their liabilities in respect of those schemes. It requires sponsors to place on their balance sheet the surplus or deficit in the scheme as far as the sponsor is able to recover the surplus or make up the deficit. The annual change to the surplus or deficit is reported partly through the profit and loss account and partly through the Statement of Total Recognised Gains and Losses (STRGL).

The Health Fund provides pension benefits for the contributors of the scheme within the Island and hence could be seen to fall under FRS 17. However, there are a very wide range of opinions on the extent to which countries need to declare their pension scheme surplus or deficit and these have yet to be resolved. This view is supported by the UK Government Actuary Department (GAD) who have advised that they are unaware of any countries who report their pension scheme surplus or deficit on their balance sheet. Considering all of these factors and the nature of the Health Fund, the Minister has decided that it is not appropriate to include any pension scheme surplus or deficit on the Health Fund's balance sheet.

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

UK GAAP Disclosures

The Department have considered the disclosure requirements under UK GAAP and as a consequence a number of comparative figures have been restated.

The Department has adopted FRS 26, 'Financial Instruments: Recognition and Measurement'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Fixed deposit accounts were previously classified as Investments, however under FRS 26 they are now reclassified within Cash at Bank and in Hand.

The Department has adopted FRS 29, 'Financial Instruments: Disclosures'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. There is no prior year adjustment to reserves resulting from adopting this standard, as its provisions relate to disclosure.

1.2 Foreign Currency

(a) Functional and Presentation Currency

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

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

(b) Transaction and balances

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

1.3 Income

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

(a) Contributions

Contributions represent the income received from payments made by employers, employees and self-employed.

Social Security contributions are set at the rate of 2% of earnings (Employees, 0.8%; Employers, 1.2%). The financial statements include an estimation in respect of the contributions from insured persons, employers and the States of Jersey for the year ended 31 December 2007.

(b) States' Contribution (to Health Insurance Exceptions)

A proportion of Health Insurance Exception (HIE) costs, currently 60% is paid from contributions and the remaining 40% is paid from a States of Jersey vote. This scheme provides those on low income and not normally in employment with free medical treatment.

(c) Bank Interest Received

Interest income is accrued on a time basis, by reference to the principal outstanding and the interest rate.

(d) Pharmaceutical Discounts

The Department has a contract with drug supplier, Nycomed Ltd, who provide a discount of 1.5% based on the level of drug expenditure.

1.4 Benefits

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

(a) Medical

These are payments claimed by General Practitioners for visits or medical services provided.

(b) Pharmaceutical

These are payments claimed by Pharmacists for the full cost of the prescription drugs supplied.

1.5 Health Insurance Exceptions

These are payments made from the Health Fund to those claimants who qualify for free medical treatment and medicines.

1.6 Gluten Free Food Vouchers

These are payments made to those eligible to receive a subsidy to buy gluten-free food because of a medical condition which needs a gluten free diet.

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

1.7 Administrative Expenses

Administrative expenses are accounted for on an accruals basis, with the exception of bad debts which are accounted for as set out in paragraph 1.10, and consist of the following:

(a) Staff Costs

Staff costs include salaries, wages paid to staff and pension contributions.

(b) Other Administrative Expenses

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

1.8 Cash at Bank and in Hand

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

1.9 Trade Debtors

Trade debtors are measured at initial recognition at fair value and reflect contributions and services provided for which income is due as at 31 December 2007 and benefits due in 2008 which are paid in 2007. Contributions outstanding at the 31 December 2007 represent contributions for the last quarter (October to December 2007).

Outstanding contributions are estimated using historical data adjusted for any contributions received. The calculation also includes the balance of instalment arrangements outstanding and the value of the third quarter 2007 arrears due from successful civil court action along with an estimate for the last quarter 2007 civil court action.

1.10 Bad debts

Class I and Class II contributions are written off as follows:

Class I: A write off is made when the employer cannot contribute on behalf of their employee by virtue of being declared en desastre or bankrupt.

Class II: A write off is made when the individual has defaulted on an instalment arrangement and has died.

An instalment arrangement is when the contributor has entered into a financial arrangement with the department to reimburse outstanding contributions due from earlier periods.

A provision for bad debts is made when contributions due from earlier periods are not paid and an instalment arrangement is entered into.

Any bad debt write off is subject to Ministerial approval and apportioned between the Social Security Fund and the Health Insurance Fund.

1.11 Provision for Liabilities and Charges

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

1.12 Loans Receivable

The Health Insurance Fund does not operate a bank account, other than fixed deposit accounts. Consequently all receipts and payments in relation to the Health Fund are made through nominated Social Security Fund bank accounts and then reallocated to the loan account as appropriate. The loan account does not bear interest and is repayable on demand.

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

1. ACCOUNTING POLICIES (continued)

1.13 Trade Creditors

Trade creditors are initially measured at fair value and are subsequently measured at amortised cost.

1.14 Taxation

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

2. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

Trade Debtors

Trade debtors are measured at initial recognition at fair value and subsequently at amortised cost.

Cash at Bank

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

Trade Creditors

Trade creditors are measured at initial recognition at fair value and subsequently at amortised cost.

3. FINANCIAL RISK MANAGEMENT

The Health Fund's activities expose it to liquidity and credit risk. The Social Security Department undertakes periodic risk reviews which involve identifying key risks through scoring and their mitigation.

(a) Market Price Risk

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

(b) Credit Risk

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

The Health Fund's credit risk is primarily attributable from its trade debtors. The Health Fund's objectives for managing the risk are to ensure that the trade debtors are recovered on a timely basis and that the cash at bank is secure. Where monies are not received within their payment terms they are referred to the Social Security Compliance Section for recovery. In these instances instalment arrangements are made for repayment of monies owed or court action progressed.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies which are also used by the States of Jersey.

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity Risk

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

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

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

4. STAFF COSTS

Remuneration directly associated with administering the Health Fund for the year ended 31 December, analysed by category is as follows:

	2007 £'000	2006 £'000
Directors	62	65
Other Employees	390	375
	452	440

At the year end the Department's number of equivalent full time number (FTE) of employees is 123.88 (2006: 114.15).

Details of the Department's employees for whom their total remuneration, including pension benefits and overtime payments exceeded £70,000 for the year ended 31 December are as follows:

Remuneration	2007	2006
£70,000 to £89,999	4	4
£90,000 to £109,999	-	-
£110,000 to £129,999	1	-

The above costs include remuneration for the Social Security Fund, Health Insurance Fund and States of Jersey administered benefits - all of which are administered by the Social Security Department.

Staff costs include pension contributions of £53,949 (2006: £48,046) in respect of staff employed to administer the Health Fund who are members of the States of Jersey Public Employees' Contributory Retirement Scheme (PECRS). PECRS membership is compulsory for all States of Jersey permanent employees 20 years of age and over.

Contributions made to the States of Jersey Public Employees' Contributory Retirement Scheme, are charged to revenue expenditure in the period they are incurred.

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

5. PENSION SCHEME

5.1 Public Employees' Contributory Retirement Scheme (PECRS)

PECRS is open to all public sector employees (excluding teachers) over 20 years of age. Membership is obligatory for all employees on a permanent contract and therefore those paid from the Health Insurance Fund.

The Scheme is managed by a Committee of Management established by the States of Jersey which has five sub-committees to investigate and report on complex technical issues.

The last published actuarial valuation of the Scheme by Hewitt Bacon & Woodrow as at 31st December 2004, dated 13th March 2006, indicated that the Scheme had an actuarial deficiency of £17.4 million at the effective date of the valuation. As at 31st December 2007, PECRS had a market value of £1,107 million (2006: £1,114 million). The States of Jersey contribution to the Scheme in 2007 was £30.2 million (2006: £39.6 million).

The Actuaries concluded that this deficiency was temporary in nature and that it could be carried forward to the next Actuarial Valuation.

Since the Social Security Department is unable to readily identify its share of the underlying assets and liabilities of PECRS, under FRS 17, contributions to the scheme will be accounted for as if they were contributions to a defined contribution scheme.

PECRS is a final salary scheme but not a conventional defined benefit scheme as the employer is not responsible for meeting any ongoing deficiency in the scheme. As a result of that limitation on the States' responsibility as employer, the scheme deficit is disclosed but not recognised in the accounts of the States of Jersey.

The States of Jersey in agreeing P190/2005 on September 2005 have confirmed responsibility for the past service liability which arose from the restructuring of the PECRS arrangements with effect from 1 January 1988. This liability amounted to £122.9 million at 31 December 2007.

The provisions to address the past service liability include an increase in employers' contributions equivalent to 0.44% of members' salaries as from 1 January 2002, raising the employers' contribution rate to 15.6% of members' salaries. Of the employers' contribution rate of 15.6% of members' salaries, a sum initially equivalent to 2% of the employers' total pensionable payroll is paid into the Scheme to meet the pre-1987 past service liability. The remaining 13.6% of members' salaries continues to fund the current service liability.

Over 82 years (from 2002) the past service liability would thereby be repaid, at which point the employers' contribution rate would revert to 15.16% of members' salaries.

Copies of the latest Report and Accounts of the States of Jersey and the Public Employees' Contributory Retirement Scheme are available from the States' Greffe.

5.2 Additional information required by FRS 17

PECRS is a final salary scheme but not a conventional defined benefit scheme as the employer is not responsible for meeting any ongoing deficiency in the scheme. As a result of that limitation on the States' responsibility as employer, the scheme deficit is disclosed but not recognised in the accounts.

The Actuarial Valuation of PECRS was carried out at 31 December 2004. This valuation has been updated by Actuaries to 31 December 2007 in accordance with FRS 17, based on current obligations.

The assumptions and methodology required under FRS 17 differ considerably from the approach that has been used by the Actuaries of PECRS in providing Actuarial Valuations, used for funding purposes. These differences in methodology combined with the time that has elapsed since the latest Actuarial Valuation mean that the FRS 17 results are different to the position revealed in the latest formal published Actuarial Valuation.

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

5. PENSION SCHEME (continued)

The results of up to date Actuarial Valuations, rather than the results of the FRS 17 disclosures below, will be used to determine the quantum of any adjustments that may be needed to the benefits and contributions of the Health Fund.

Information on the scheme is presented in the accounts, reflecting the cost of the scheme to the employer. As the scheme limits the liability to the Health Fund, scheme surpluses or deficits are only recorded to the extent that they belong to the Social Security Fund.

The major assumptions used for the FRS 17 actuarial assessments at 31 December are:

	2007 % pa	2006 % pa
Discount Rate	5.8	5.1
Salary Inflation	4.7	4.4
Pension Increases	3.4	3.1
UK Price Inflation *	3.4	3.1

* Estimated Future UK price inflation is used as the best available proxy for estimated future Jersey price inflation. There is a risk that the UK rate may not accurately reflect Jersey's circumstances; as a consequence there is a risk that the resulting figures provided may be either over or understated.

The following table reflects the financial position of PECRS, including all admitted bodies other than Jersey Telecom Group Limited and Jersey Post International Limited.

On the FRS 17 basis, the assets and liabilities of the scheme are:

	2007 £000	Expected Return	2006 £000	Expected Return
Equities	1,083,731	7.6%	889,073	7.6%
Property	13,944	6.6%	-	6.6%
Cash/Other	9,411	5.9%	225,074	5.2%
Total Assets	1,107,086		1,114,147	
Total Liabilities	1,252,981		1,297,825	
Deficit	(145,895)		(183,678)	

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

5. PENSION SCHEME (continued)

The Net Profit and Loss Charge of the Health Fund is shown below:

	2007	2006
	£000	£000
Service Cost	(39,997)	(43,860)
Past Service Cost	-	(270)
Total Operating Charge	(39,997)	(44,130)
Expected Return on Assets	73,098	68,576
Interest on Liabilities	(62,799)	(59,897)
Net Return	10,299	8,679
Net Profit and Loss charge	(29,698)	(35,451)

PECRS, whilst not a final salary scheme, is not a conventional defined benefit scheme as the employer is not responsible for meeting any ongoing deficiency in the scheme. Employer contributions are charged to revenue expenditure in the year they are incurred. As this scheme limits the liability of the States as the employer, scheme surpluses or deficits are only recorded within the States' accounts to the extent that they belong to the States.

The movement in deficit during the year as so disclosed is:

	2007	2006
	£000	£000
Deficit in Scheme at beginning of year	(181,441)	(281,594)
Service Cost	(39,997)	(43,860)
Past Service Cost *	-	(279)
Contributions Paid	30,247	44,915
Other Finance Income	10,299	8,679
Actuarial Gain	34,997	88,461
Deficit in Scheme at the end of year	(145,895)	(183,678)

* The Past Service Cost is in respect of widowers' pensions being introduced in respect of post 1988 service.

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

5. PENSION SCHEME (continued)

The analysis of Total Recognised Gains and Losses (STRGL) during each year is:

	2007 £000	2006 £000
Actual Return less Expected Return on Assets	(13,948)	42,052
Experience (Loss)/Gain on Liabilities	(2,833)	15,097
Changes in Liability Assumptions	51,778	31,312
Actuarial Gain/(Loss)	34,997	88,461

The history of experience gains and losses is:

	2007		2006	
	£000	%	£000	%
Actual Return less Expected Return on Assets	(13,948)		42,052	
Percentage of Assets		1.3%		3.8%
Experience (Loss)/Gain on Liabilities	(2,833)		15,097	
Percentage of Liabilities		0.2%		1.2%
Actuarial Gain	34,997		88,461	
Percentage of Liabilities		2.8%		6.8%

6. DEBTORS

	2007 £000	2006 £000
Loan receivable: Social Security Fund	6,219	6,965
Trade debtors:		
Contributors - individuals and employers	4,992	3,689
Other debtors	102	85
Bank interest and other income	207	113
	11,520	10,852

Trade debtors include an amount of £15,000 (2006: £23,000) due after more than one year.

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

Contributions are due from smaller organisations (less than 80 employees) and employers for the fourth quarter. Contributions are stated net of the provision for bad debts, 2007: £17,400, (2006: £40,400).

The loan receivable from the Social Security Fund is unsecured, interest free and repayable on demand.

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

6. DEBTORS (continued)

As at 31 December the Health Fund provided for a bad debt provision of £23,504 (2006: £40,368). This was made for those contributors entering into an instalment agreement with the Department.

	2007 £000	2006 £000
Up to 3 months	5	10
3 to 6 months past due	1	2
6 to 12 months past due	3	6
Over 12 months past due	15	23
	24	41

The Minister considers that none of the above are impaired.

As at 31 December, trade debtors of carrying value £11.5 million (2006: £10.8 million) which are past their due date but not impaired. The ageing is shown below:

	2007 £000	2006 £000
Up to 3 months	11,476	10,852
3 to 6 months past due	44	-
Over 6 months past due	-	-
	11,520	10,852

7. CREDITORS:

Amounts falling due within one year

	2007 £000	2006 £000
Trade creditors:		
Amounts due to Doctors for Medical Benefit	84	89
Amounts due to Pharmacists for prescriptions	893	890
Amounts due to NHS Business Services Authority for the cost of prescription processing	76	29
Other creditors	32	66
	1,085	1,074

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

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

7. CREDITORS (continued)

Maturity of financial liabilities:

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

	Other financial liabilities £000	2007 £000	2006 £000
Up to 3 months	1,054	1,054	1,070
3 to 6 months past due	31	31	3
6 to 12 months past due	-	-	1
	1,085	1,085	1,074

8. REVENUE RESERVES

	2007 £000	2006 £000
As at 1 January	52,778	44,295
Retained surplus for the year	10,657	8,483
As at 31 December	63,435	52,778

9. RELATED PARTY TRANSACTIONS

The Health Fund which considers the States of Jersey to be its ultimate controlling party, has the following commercial, arm's length relationships with the following States bodies:

(a) Jersey Post International Limited

The States of Jersey hold all the ordinary shares in Jersey Post International Limited which became incorporated on 1 July 2006.

(b) Jersey Telecom Group Limited

The States of Jersey hold all the ordinary shares and 9% cumulative preference shares in the Jersey Telecom Group Limited.

The Health Fund pays Jersey Telecom Limited for services relating to telecommunications.

(c) Jersey Electricity Company Limited

The States of Jersey hold all the ordinary shares in the Jersey Electricity Company Limited which represents 54% of the Company's total share capital as at 31 December 2007.

The Health Fund pays Jersey Electricity Company Limited for the supply of heat, light and power.

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

9. RELATED PARTY TRANSACTIONS (continued)

(d) States of Jersey Treasury and Resources and other States Departments

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

Payments made in the year to 31 December to these related parties are shown below:

	2007 £000	2006 £000
Jersey Post International Limited	13	16
Jersey Telecom Group Limited	13	15
Jersey Electricity Company Limited	7	5
States of Jersey Treasury and Resources and other States Departments	30	28
	63	64

The Health Fund receives income from the States of Jersey in order to fund 40% of the cost of the Health Insurance Exception (HIE) scheme (2007: £1,275,589; 2006: £1,217,747).

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

During the year the Social Security Department made net payments on behalf of the Health Insurance fund of £0.746m (2006: (£4.361m)). At the year end the Health insurance fund was owed £6.219m (2006: £6.965m).

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

	2007 £000	2006 £000
Services Related to administration	1,051	929
Related party balances at the year end:		
	2007 £000	2006 £000
Amounts due to related parties:		
Treasurer of the States	6	29
Jersey Telecom Group Limited	1	1
Jersey Electricity Company Limited	1	1
Jersey Post International Limited	2	4
	10	35

Health Insurance Fund

Notes to the Financial Statements for the year ended 31 December 2007

9. RELATED PARTY TRANSACTIONS (continued)

	2007 £000	2006 £000
Amounts due from related parties:		
Social Security Fund	6,219	6,965
Treasurer of the States	15	49
	6,234	7,014

10. RECONCILIATION OF SURPLUS FOR THE YEAR TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2007 £000	2006 £000
Surplus of income over expenditure for the year	10,657	8,483
Increase in debtors	(668)	(4,424)
Increase / (decrease) in creditors	11	(59)
	10,000	4,000

11. ANALYSIS OF NET FUNDS

	At 1 January 2007 £000	Cash flows £000	At 31 December 2007 £000
Liquid resources	43,000	10,000	53,000
Net funds	43,000	10,000	53,000

12. RESTATEMENT OF COMPARATIVES

A number of comparative figures have been restated to ensure that the comparative information is comparable to the current year's results. These are detailed below which have had no impact on the Health Fund's reserves.

Cash at bank and in hand

In prior periods cash held on 30 and 60 days deposit was treated as current asset investments. UK GAAP requires the deposits to be classified as 'Cash at bank and in hand' and has therefore been included as such in the single line on the Balance Sheet. At the year end the value of deposits at the bank was £53m (2006: £43m).

13. ULTIMATE CONTROLLING PARTY

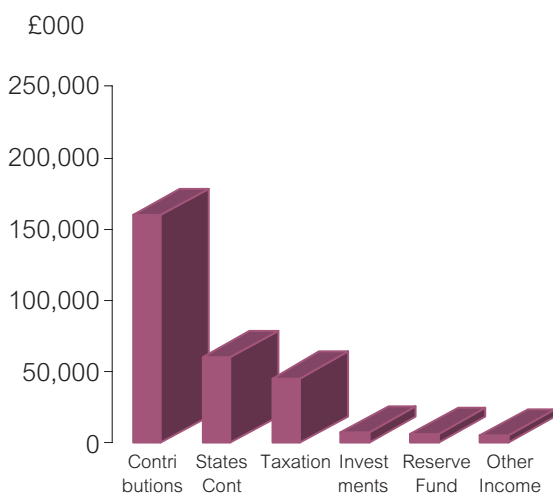
Under the Health Insurance (Jersey) Law, 1967 the Minister of Social Security is the ultimate controlling party of the Health Fund. The Minister of Social Security is a member of the council of Ministers of the States of Jersey and is responsible for safeguarding the assets of the Health Fund and for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

Statistical Appendix 1

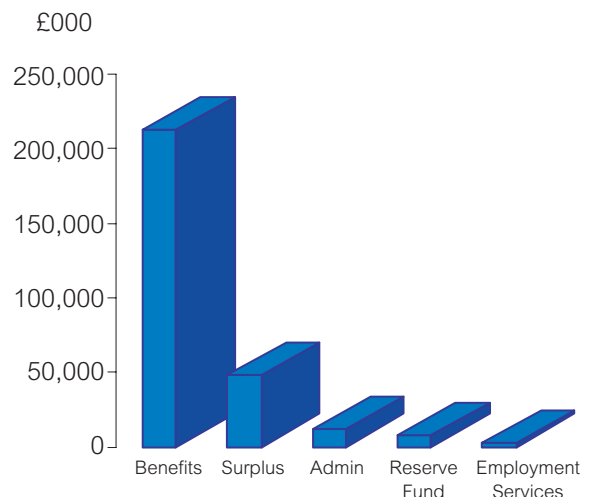
Subjective analysis of all services

	Social Security Fund £000	Social Security Reserve £000	Health Fund £000	Tax Funded Services £000	Total 2007 £000	Total 2006 £000 (as restated)
INCOME						
Contributions from employers & employees	133,913	-	25,507	-	159,420	147,564
Taxation	-	-	-	44,819	44,819	41,975
States' Contributions	58,627	-	1,276	-	59,903	57,785
Net Investment income	-	7,001	-	-	7,001	8,671
Bank interest and other income	1,618	269	3,135	10	5,032	4,195
Net Reserve Fund income	5,983	-	-	-	5,983	7,593
Total Income	200,141	7,270	29,918	44,829	282,158	267,783
EXPENDITURE						
Benefits	155,428	-	18,210	38,698	212,336	200,807
Employment schemes & services	-	-	-	2,507	2,507	3,114
Administration	6,115	1,287	1,051	3,624	12,077	12,528
Transferred to the Reserve Fund	5,983	-	-	-	5,983	7,593
Total Expenditure	167,526	1,287	19,261	44,829	232,903	224,042
Surplus of Income over Expenditure	32,615	5,983	10,657	-	49,255	43,741

INCOME FROM ALL SOURCES 2007



EXPENDITURE FROM ALL SOURCES 2007



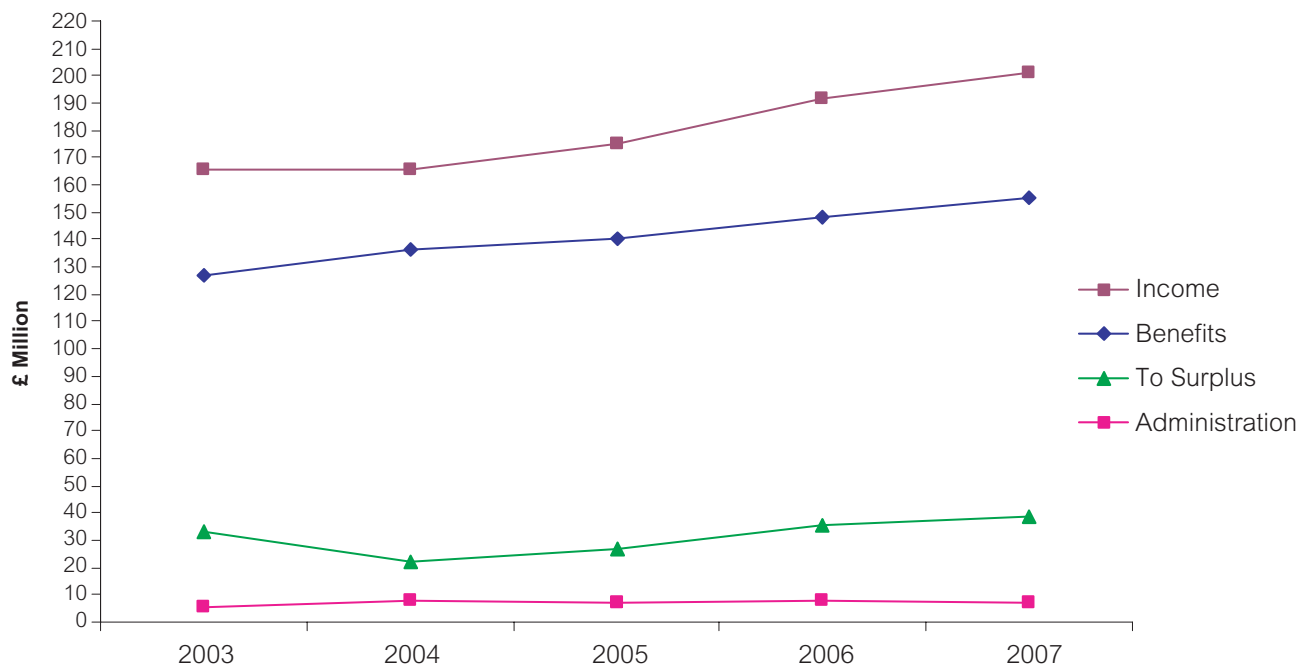
The above information is for the benefit of the user and is not part of the audited financial statements.

Statistical Appendix 2

Five year summary of both Social Security Funds

	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000
INCOME					
Contributions	108,427	110,319	117,136	123,954	133,913
Supplementation	49,892	50,800	50,776	56,567	58,627
Net Investment income	4,992	3,876	5,302	8,671	7,001
Bank interest & other income	1,917	799	1,490	2,070	1,887
Total Income	165,228	165,794	174,704	191,262	201,428
EXPENDITURE					
Benefits	126,562	136,188	140,209	148,225	155,428
Administration	5,392	7,497	7,323	7,779	7,402
Total Expenditure	131,954	143,685	147,532	156,004	162,830
NET SURPLUS	33,274	22,109	27,172	35,258	38,598
NET ASSETS	399,071	452,233	560,148	641,680	711,031

SOCIAL SECURITY FUND SUMMARY 2003 TO 2007



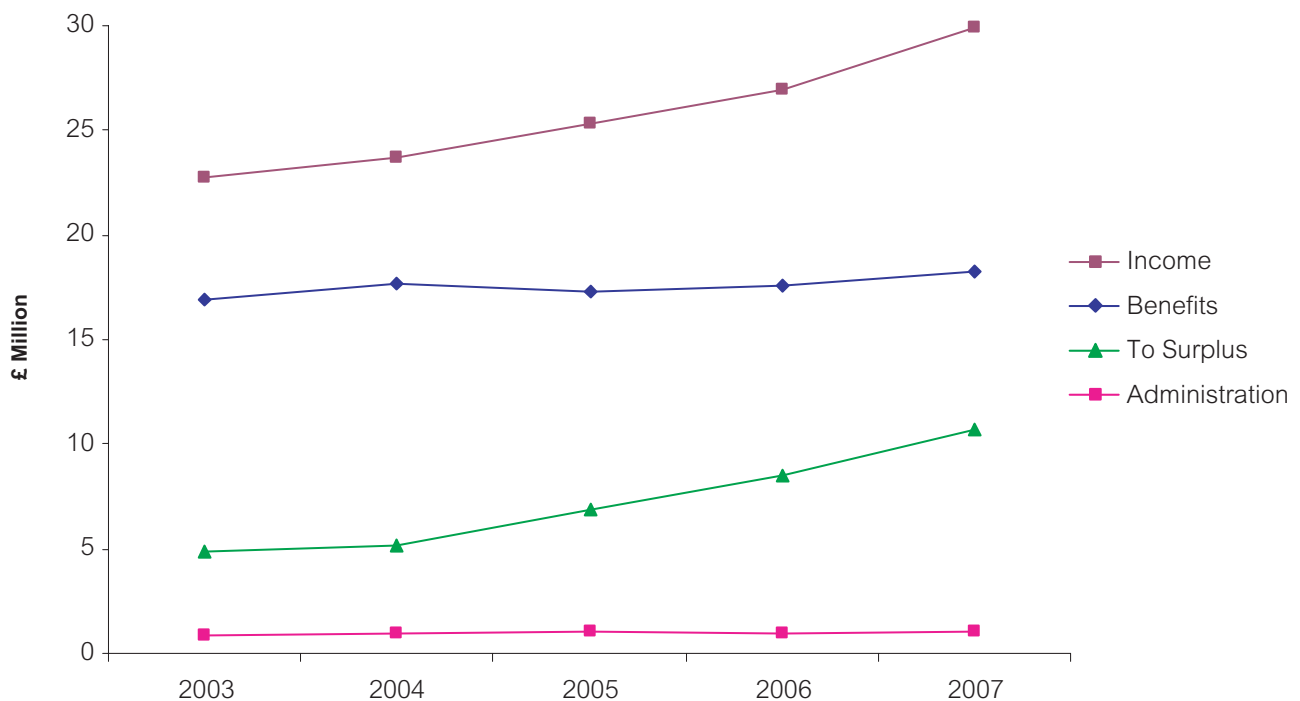
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Statistical Appendix 3

Five year summary of Health Insurance Fund

	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000
INCOME					
Contributions- Contributors	20,653	21,013	22,312	23,610	25,507
Taxation	1,073	1,181	1,171	1,218	1,276
Bank interest	909	1,454	1,751	1,997	2,986
Discounts received	63	64	59	121	149
Total Income	22,698	23,712	25,293	26,946	29,918
EXPENDITURE					
Benefits	16,959	17,628	17,318	17,534	18,210
Administration	836	941	1,084	929	1,051
Total Expenditure	17,795	18,569	18,402	18,463	19,261
NET SURPLUS	4,903	5,143	6,891	8,483	10,657
NET ASSETS	32,261	37,404	44,295	52,778	63,435

HEALTH INSURANCE FUND SUMMARY 2003 TO 2007



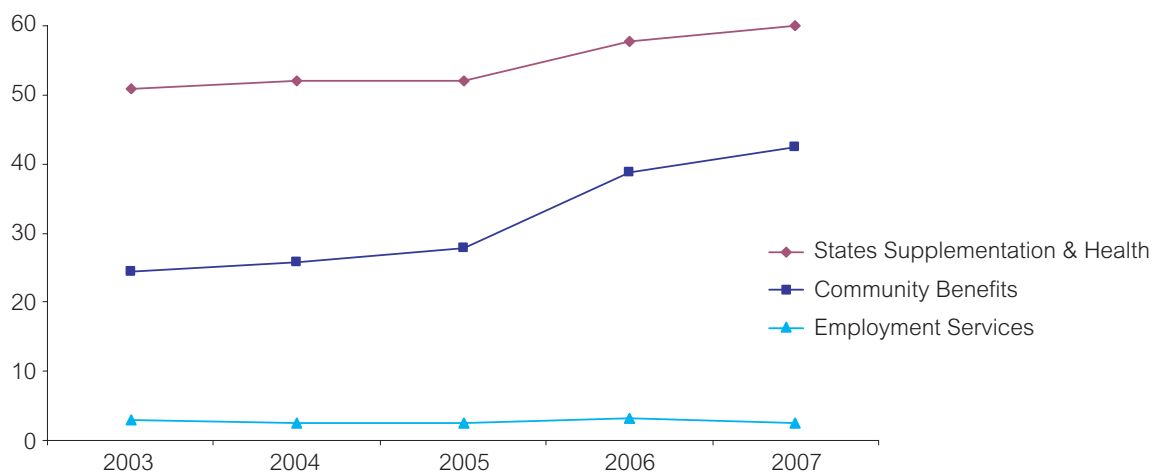
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Statistical Appendix 4

Five year summary of Tax Funded Expenditure

	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000
NET EXPENDITURE					
Contribution from the States					
States Supplementation	49,892	50,800	50,776	56,567	58,627
Health Insurance Exceptions	1,072	1,181	1,171	1,218	1,276
Total Contribution from the States	50,964	51,981	51,947	57,785	59,903
Community Benefits					
Family Allowances	4,944	5,115	5,155	5,360	5,564
Dental Benefit	106	101	97	95	92
Non-Contributory Death Grants	18	10	23	10	11
Milk at Reduced Rate	380	334	361	350	329
Attendance Allowance	3,290	3,440	3,616	3,958	4,161
Invalid Care Allowance	1,367	1,560	1,781	2,091	2,070
Disablement Allowance	929	974	1,030	1,053	1,120
Welfare and Residential Care	3,240	3,699	4,940	13,201	16,218
Christmas Bonus	1,256	1,357	1,412	1,459	1,565
Disability Transport Allowance	5,988	6,101	6,395	6,470	6,616
Childcare Allowances	689	622	469	514	513
Social Fund (States)	198	268	246	136	198
65 + Health Plan	371	376	265	176	46
TV Licence 75+	-	-	-	176	195
Community Benefits Admin Direct and Indirect	1,600	1,833	2,142	3,824	3,625
Total Community Benefits	24,376	25,790	27,932	38,873	42,323
Employment Services					
Training & Employment	2,099	1,641	1,692	2,219	1,629
Health and Safety	457	461	406	385	393
Employment Relations	344	343	495	505	485
Total Employment Services	2,900	2,445	2,593	3,109	2,507
TOTAL NET EXPENDITURE	78,240	80,216	82,472	99,767	104,733

5 YEAR SUMMARY OF TAX FUNDED EXPENDITURE



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

Statistical Appendix 5

Statistical summary as at 31 December

	2003	2004	2005	2006	2007
SOCIAL SECURITY					
Number of Contributors					
Employed - Class 1	40,578	40,788	41,764	42,990	43,989
Self Employed - Class 2	3,572	3,757	3,916	3,900	4,031
Red Cards	4,786	4,593	4,500	4,416	4,276
Receiving credits only	4,467	4,684	4,793	4,708	4,553
Receiving supplementation	30,814	30,079	30,439	31,444	31,484
Number of Beneficiaries					
Pensions	21,707	22,380	22,852	23,484	24,202
Survivor's Benefit	969	957	940	945	952
Short Term Incapacity Allowance	616	831	1,219	1,097	973
Invalidity Benefit	1,954	2,094	1,962	1,754	1,575
Injury Benefit	76	59	-	-	
Long Term Incapacity Allowance	828	982	1,370	1,785	2,066
Maternity Allowance	230	244	197	197	202
HEALTH INSURANCE - ORDINARY					
Number of persons in the scheme	83,304	83,212	83,172	84,177	85,013
Number of doctors' visits during year	359,477	349,479	338,556	354,395	342,404
Number of prescriptions during year	958,231	993,307	1,044,211	1,067,496	1,127,489
Gluten Free Food beneficiaries	158	171	189	205	216
HEALTH INSURANCE - EXCEPTIONS					
Number of persons in the scheme	3,882	3,974	4,014	4,023	4,287
Number of doctors' visits during year	44,006	45,078	46,542	47,125	46,771
Number of prescriptions during year	153,031	170,730	175,152	184,120	196,846
STATES FUNDED SCHEMES					
Family Allowance beneficiaries	1,334	1,293	1,244	1,215	1,172
Dental Scheme members	1,346	1,305	1,320	1,309	1,331
Milk at Reduced Rate beneficiaries	8,353	7,837	7,578	7,463	8,634
Attendance Allowance beneficiaries	722	728	733	762	793
Invalid Care Allowance beneficiaries	132	147	167	177	181
Disablement Allowance beneficiaries	290	284	293	289	306
Christmas Bonus beneficiaries	17,763	18,158	18,122	18,262	18,544
Disability Transport Allowance beneficiaries	2,949	3,032	3,131	3,237	3,309
Child Care Allowance beneficiaries (0-5)	71	56	50	47	51
65+ Health Scheme members	2,177	2,467	2,623	2,740	2,779
Television Licence beneficiaries	-	-	-	1,424	1,497
Registered unemployed at 31 December	674	477	414	427	322

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Social Security Department

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