



# JRA Funding in 2023

Issued: 29 December 2022

## Glossary of Terms

Defined terms are indicated throughout this document as follows:

Jersey Bank	A person registered to carry on deposit-taking business in or from within Jersey under the Banking Business (Jersey) Law 1991
Jersey DCS	Jersey Bank Depositors Compensation Scheme
JFSC	Jersey Financial Services Commission
JRA	Jersey Resolution Authority
Resolution Law	Bank (Recovery and Resolution) (Jersey) Law 2017

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# 1 Executive Summary

## 1.1 Overview

- 1.1.1 The JRA is established under the Resolution Law to minimise the impact of a bank failure and to ensure public funds are protected. The JRA is independent from Government and the Jersey Financial Services Commission.
- 1.1.2 This paper has been sent to all Jersey Banks to provide details of the annual levy that the JRA will require to fund its operations in 2023.
- 1.1.3 The JRA has concluded that it is prudent to maintain a modest administrative reserve (based on a proportion of budgeted recurring expenditure). However, the JRA is forecast to be in surplus for 2022, which will be used to establish most of this reserve.
- 1.1.4 The JRA budgeted expenditure for 2023 has been set at £398,500.
- 1.1.5 Combined with an amount of £18,000 in respect of our administrative reserve, it is proposed to levy Jersey Banks a total of £416,500 for 2023 (2022: £400,000).
- 1.1.6 Consistent with 2022, it is proposed to allocate this amongst Jersey Banks in the same proportions used by the JFSC when determining deposit-taking fees for 2023.

## 1.2 Feedback

- 1.2.1 Comments are invited from interested parties on the proposals by 31 January 2023.
- 1.2.2 Comments should be sent to Martin Edwards, Head of the JRA at: [m.edwards@jra.org.je](mailto:m.edwards@jra.org.je)
- 1.2.3 Comments may be made anonymously, via the JBA, by contacting: Jerry Whitsey.
- 1.2.4 Comments received may be shared with the JFSC to the extent necessary to facilitate completion of the JRA's budgeting and annual administration levy process.

## 1.3 Next Steps

- 1.3.1 It is intended that the annual administrative levy for 2023 will be declared in the first quarter of 2023.
- 1.3.2 A Notice will be sent to each Jersey Bank, providing details of the invoice amount and the date payable.

## 2 The JRA

### 2.1 Overview

- 2.1.1 The JRA is established under the Resolution Law to minimise the impact of a bank failure and to ensure public funds are protected. The JRA is independent from Government and the Jersey Financial Services Commission.
- 2.1.2 The JRA plays a key role in upholding Jersey's status as a leading international finance centre by:
  - 2.1.2.1 reducing the risk of financial loss due to bank failure;
  - 2.1.2.2 protecting and enhancing the reputation and integrity of Jersey; and
  - 2.1.2.3 considering the best economic interests of Jersey.

### 2.2 Annual Administration Levies

- 2.2.1 The Resolution Law requires that the JRA shall adopt a budget for each financial year (being the 12 months ending 31 December each year) and that, based on that budget, the JRA shall determine whether to raise an annual administration levy and, if so, the total amount to levy.
- 2.2.2 The Resolution Law provides that an annual administration levy may be raised to:
  - 2.2.2.1 Cover annual recurring administrative costs;
  - 2.2.2.2 Maintain a reserve for potential future administrative costs (by way of contingency or otherwise); and
  - 2.2.2.3 Maintain a reserve against the possibility, in the event of a bank resolution, of the JRA wishing to pay administrative costs without needing to wait for receipt of other funding for these costs.
- 2.2.3 The Resolution Law provides that the JRA shall determine the method of calculation of the annual administration levy to be paid by each Jersey Bank and, as soon as practicable, to send written notice to each Jersey Bank requiring it to pay the annual administration levy.

## 3 Proposals

### 3.1 Administrative Reserve Policy

- 3.1.1 The JRA considers that it is prudent for it to maintain a modest Administrative Reserve to:
  - 3.1.1.1 Prevent unnecessary borrowing by the JRA;
  - 3.1.1.2 Provide a contingency for unforeseen administrative costs;
  - 3.1.1.3 Provide flexibility for the JRA to incur additional administrative costs to fulfil its functions; and
  - 3.1.1.4 Avoid the need to raise additional administration levies during a year (which would create administrative costs for the JRA and Jersey Banks).

- 3.1.2 Accordingly, the JRA has adopted an Administrative Reserves Policy that provides for:
- 3.1.2.1 Minimum Level of Reserves equal to one sixth of Budgeted Annual Recurring Expenditure (i.e. 2 months’ worth of annual recurring costs); and
  - 3.1.2.2 Target Level of Reserves equal to one third of Budgeted Annual Recurring Expenditure (i.e. 4 months’ worth of annual recurring costs).
- 3.1.3 To help limit significant fluctuations in the JRA’s annual administrative levy, the levy will be calculated to:
- 3.1.3.1 Cover the Budgeted Annual Expenditure for the year; plus
  - 3.1.3.2 If necessary, return budgeted reserves to the Minimum Level of Reserves set out in 3.1.2.1 above; plus
  - 3.1.3.3 If necessary, return reserves towards the Target Level of Reserves set out in 3.1.2.2 above by levying one third of the deficit to the Target Level of Reserves (after adjusting for 3.1.3.2 above).
- 3.1.4 If, for whatever reason, the JRA forecasts that its reserves will exceed the target level, the JRA will reduce the annual administrative levy accordingly (i.e. if reserves are above the target level the annual administrative levy will be lower than the JRA’s budgeted annual expenditure for the year ahead by a corresponding amount).

## 3.2 2023 Budget and Annual Administration Levy

- 3.2.1 The JRA’s total budgeted expenditure for 2022 was £400,000.
- 3.2.2 Due to a combination of delayed onset of costs and cost savings during the set-up of the JRA, the JRA forecasts that its total expenditure for 2022 will be £320,730. This will result in a surplus in 2022 of £79,270.
- 3.2.3 The JRA’s budgeted expenditure for 2023 has been set at £398,500 (a 8.1% increase versus 2022 budgeted recurring costs). Broken down as follows:

	<b>2022 Budget</b>	<b>2022 Forecast</b>	<b>2023 Budget</b>
Board Fees	£50,000	£45,833	£50,000
Staff Costs	£240,000	£177,397	£225,000
JFSC Service Charge	£50,000	£50,000	£75,000
Other Recuring Costs	£28,500	£31,000	£48,500
Set-up costs	£31,500	£16,500	-
<b>Total Costs</b>	<b>£400,000</b>	<b>£320,730</b>	<b>£398,500</b>

- 3.2.4 The increase in JFSC Service Charge is attributable to a combination of greater certainty regarding the level of work required to support the JRA, additional services added during 2022, increases in third party licence fees (incurred on behalf of the JRA) and inflation.

- 3.2.5 The increase in Other Recurring Costs is primarily driven by higher cost of insurance versus 2022 budget and forecast.
- 3.2.6 All the 2023 budgeted expenditure is recurring. Accordingly, based on the JRA's Administrative Reserves Policy described in section 3.1, the JRA's target and minimum reserves are:
- 3.2.6.1 Minimum Level of Reserves of £66,417.
- 3.2.6.2 Target Level of Reserves of £132,833.
- 3.2.7 It is proposed to levy an amount of £18,000<sup>1</sup> to move the JRA towards its Target Level of Reserves. As a result, our budgeted level of reserves at the end of 2023 is £97,270<sup>2</sup>.
- 3.2.8 Based on the above, the proposed Total Annual Administration Levy for 2023 is £416,500 (2022: £400,000) a 4.1% increase.
- 3.2.9 Consistent with 2022, it is proposed to allocate this amongst Jersey Banks in the same proportions used by the JFSC when determining deposit-taking fees.
- 3.2.10 Due to changes in the composition of the banking sector, the amount of levy allocated to each Jersey Bank may vary by an amount that is more than or less than a 4.1% increase.
- 3.2.11 Bank specific levies will be set out by way of Notice to each bank in Q1 2023.

### 3.3 Future Annual Administration Levies

- 3.3.1 The JRA remains a relatively new body, therefore, forecasting expenditure carries a level of uncertainty that is greater than might be expected of a more established organisation.
- 3.3.2 Whilst the JRA has not yet determined a budget for 2024 or subsequent years, there are no current intentions to increase headcount or amend the structure of the JRA's operations for 2024.
- 3.3.3 However, aside from any inflationary pressures on the JRA's recurring budgeted expenditure, the JRA anticipates incurring some additional costs in 2024 to allow for:
- 3.3.3.1 A Resolution Scenario Test; and
- 3.3.3.2 A project to review and, where necessary, update the Resolution Law.
- 3.3.4 In budgeting for 2023 and considering potential costs in 2024 the JRA has based its calculations on no Jersey Bank becoming financially distressed or entering resolution. Were such events to take place, the JRA would incur additional administrative costs, which may result in an increased annual administration levy or additional 'top-up' administration levy during the year.
- 3.3.5 Following completion of the JRA's first cycle of resolution planning, it will reconsider the approach to allocating the total annual administration levy across each Jersey Bank. Further details in this respect will be provided at that time.

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<sup>1</sup> Calculated as (Target Level of Reserves less 2022 Forecast Surplus) divided by three (£132,833 - £79,270)/3 = £18,000 (rounded to nearest £500).

<sup>2</sup> Calculated as 2022 Forecast Surplus plus proposed amount levied for reserves in 2023 (£79,270 + £18,000).

**Appendix A: List of representative bodies who have been sent this funding paper**

1.1 Jersey Bankers Association