STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2016 – 2019 (P.72/2015): SECOND AMENDMENT (P.72/2015 Amd.(2)) – COMMENTS

Presented to the States on 5th October 2015
by the Council of Ministers

STATES GREFFE

COMMENTS

Deputy G.P. Southern of St. Helier proposes –

- To increase the total intended amount of States income from 2017 – 2019 by a higher rate of income tax to be introduced in 2016 for individuals whose income is greater than £100,000 per annum to offset the financial impact of not proceeding with the proposed savings in the Social Security Department, i.e. removing the Christmas bonus, closing the TV Licence benefit scheme for the over-75s, removing index-linking to core components of Income Support for the over-65s and removing current Income Support disregard for pension income.

- To increase the total States expenditure in 2016 – 2019 by not proceeding with the savings in the Social Security Department for removing the Christmas bonus, closing the TV Licence benefit scheme for the over-75s, removing index-linking to core components of Income Support for the over-65s and removing current Income Support disregard for pension income, as proposed in the MTFP for 2016 – 2019.

The Council of Ministers strongly opposes the second amendment and the associated eighth and ninth amendments.

Summary of Council of Ministers' Comments

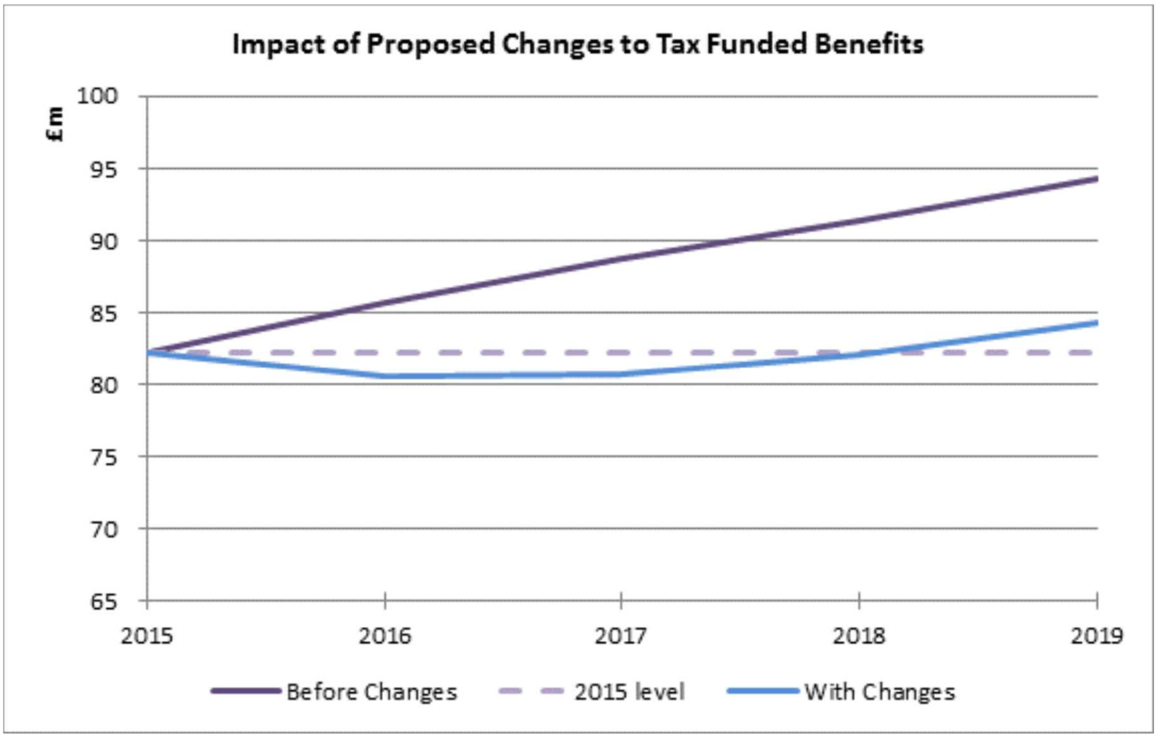
For ease of reference, the Council of Ministers is presenting a single Comment regarding the proposed increases in income tax, which should be considered by States members alongside each of the Amendments (2), (8) and (9).

- Every Social Security benefit has been considered and all the proposals were judged against the principle of making the benefit system fairer.
- It is vital that we review these benefits to ensure that they provide effective support to people that really need it.
- The proposed benefit measures have been properly thought through and in many cases protect existing claimants with budget savings created through holding benefit levels steady, rather than needing to make cuts in current entitlement.
- Without any change, the cost of benefits aimed at the older population will increase dramatically over the next 20 years, at a time when expenditure on health, long-term care and pensions will also be increasing.
- If we put off these decisions now, they will just have a bigger impact and become harder to make later on, as the number of people claiming pensioner benefits increases each year.
- The Jersey Old Age Pension increased by £135 p.a. from October this year, a real terms increase of £94 p.a. over and above inflation.
- Pensioners reliant on income support have also seen above-inflation increases in their total income since the introduction of income support.

- The package of measures presented in the MTFP has been proposed to reprioritise resources by reducing spending in some areas to invest in other higher priorities for Health, Education, infrastructure, economic growth and improving productivity.
- Each department has considered its priorities and submitted requests for additional funding alongside a spending review which requires savings and efficiencies across the States.
- The Amendment proposals are presented as a package and the States' first strategic priority is sustainable public finances. This is a principle that should be maintained when considering these proposals.

Background to benefit proposals

The Council of Ministers believes that every area of government spending should play its part in helping the States to return to a balanced budget. The proposal to hold the benefit budget at its 2015 level by the end of the MTFP represents £10 million or 7% of the proposed £145 million package of measures needed to balance the budget and fund the investment in States' strategic priorities, particularly Health.



The proposed measures have been properly thought through, and in many cases protect existing claimants with budget savings created through holding benefit levels steady, rather than needing to make cuts in current entitlement to those benefits which are targeted at need. The package creates savings of £10 million by 2019 compared to an estimated budget that includes full indexation of benefits.

All the necessary changes have been put forward as part of the initial MTFP document. Subject to States approval of the current proposals, there will be no need to submit further proposals in 2016.

Every Social Security benefit has been considered, and all the proposals were judged against the principle of making the benefit system fairer. Three tests were also used to identify the most appropriate measures –

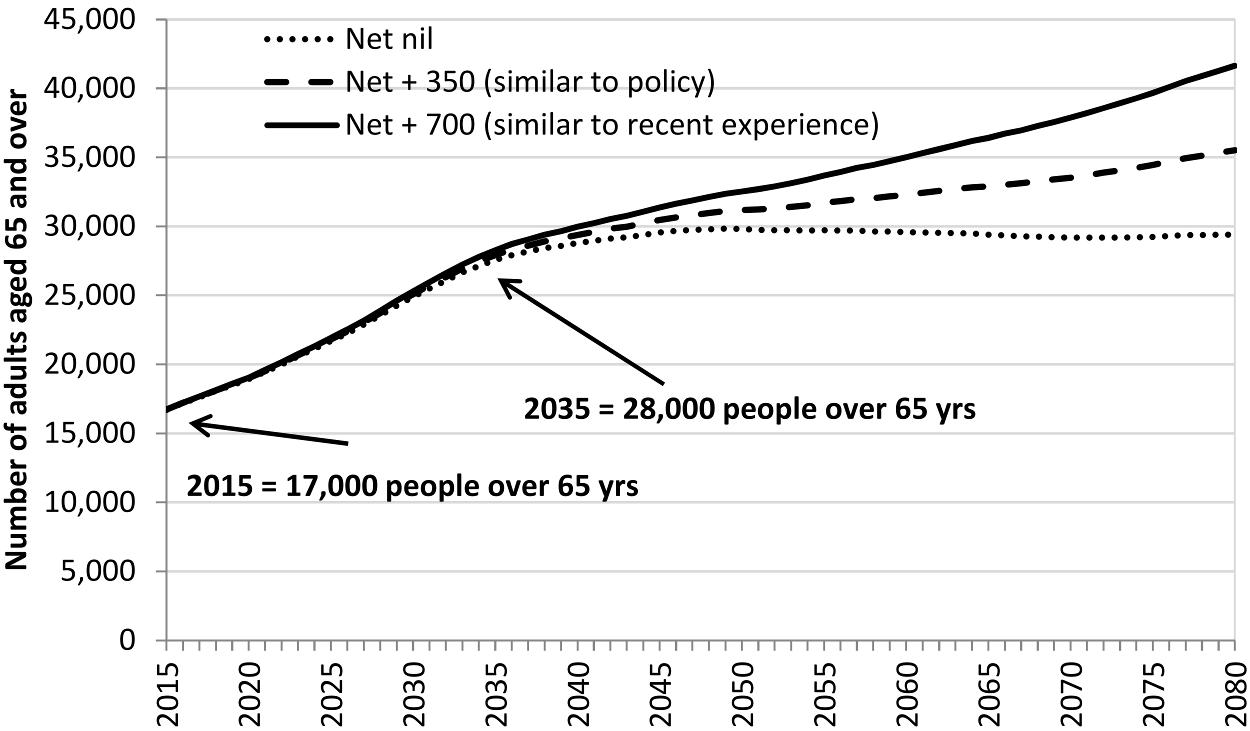
- *Promoting financial independence;*
- *Improving the targeting of benefits; and*
- *Minimising the impact on individuals.*

Demographics

It is irresponsible to ignore the demographic changes that are already taking place in our population.

The number of people aged over 65 in Jersey is already growing – 16,700 people at the end of 2015 compared to 14,400 at the end of 2010 – an increase of 16% in this 5 year period. By 2020 this will have risen to 19,000, and this steep growth will continue. By 2035 there will be nearly 28,000 people over the age of 65 – **regardless of the level of immigration**.

Growth in 65+ population - Estimated number of people for different levels of net migration



Without any change, the cost of benefits aimed at the older population will increase dramatically over the next 20 years, at a time when expenditure on health, long-term care and pensions will also be increasing. It is vital that we review these benefits to ensure that they provide effective support to people that really need it. If we put off these decisions now, they will just become harder to make later on, as the number of people claiming pensioner benefits increases each year.

The new long-term-care scheme was launched in July 2014 to support people with long-term care needs. In particular, the scheme provides generous support to home-owners to protect the value of family assets. Contributions into this Fund began in 2015 and will rise to 1% in 2016. A further increase in contribution rates is likely to be needed by 2020.

A comprehensive review of the Social Security fund will start in 2016. Action is needed in the next few years to maintain the old-age pension for future generations. A public consultation will consider options for increasing contributions, and reviewing the level and range of benefits available through the scheme.

Linked amendments

Amendments (2), (8) and (9) taken together seek to reverse the Social Security benefit changes that have been proposed. Rather than offer compensatory savings, these amendments seek to increase the rate of income tax to fund the ongoing budget for these benefits. In the event that the tax increases are not supported by the States Assembly, alternative savings would need to be identified to make up this shortfall of approximately £10 million by 2019.

Detailed Comments

Amendment (2)(i)

The Council of Ministers' proposal is to pay the Christmas bonus in 2015 and then close the scheme. At the same time, the 65+ health scheme (which provides support for dental, optical and chiropody costs for pensioners who do not pay tax) will be thoroughly reviewed, to provide additional benefits, incorporating an additional £200,000 of budget and a simpler application process. These details will be brought back to the Assembly in early 2016 for implementation during next year.

The amendment seeks to reverse both these proposals.

Christmas bonus

Jersey adopted a Christmas bonus in line with the U.K. government many years ago. The U.K. bonus was set at £10 a year and has remained at that level ever since, while the Jersey bonus rose on an annual basis. The current value reflects a reduction made a few years ago as part of a previous savings initiative. In 2015 it will be paid at just under £85 per person, at a total cost of £1.6 million.

Removing the Christmas bonus has been included in these proposals for the following reasons –

1. **There are better ways of allocating benefit spend to improve the quality of life of pensioners –** it does not help pensioners with costs that are more difficult to plan for, such as the extra cost of heating during a cold winter or urgent dental treatment.

2. **It will make the benefit system fairer –** the Christmas bonus is the only benefit funded by taxpayers that does not include any kind of means test – it is paid automatically to all local pensioners, more than half of whom are taxpayers.

3. **The value of the bonus to each individual is small, equivalent to £1.63 per week,** but the total cost of the scheme is high as it is paid to a large number of claimants.

4. **The bonus is not sustainable** with a growing pensioner population and pressure on all areas of States spending.

From 1st October, the value of the old-age pension has increased by £2.59 per week (full rate single pension), worth an extra £135 over a full year. This is an increase in spending power for pensioners of £94, as the inflation rate (RPI pensioner) for the last 12 months stands at just 0.4%, well below the increase in the pension rate. The annual uprating of the old-age pension is enshrined in Social Security legislation and is not affected by any proposals within the MTFP.

Prioritising spending to allow for investment in health care will ensure that pensioners will be able to continue to benefit from a high quality health service, which can accommodate the increasing demand from a growing number of older people in the population.

A decision to maintain the Christmas bonus will place a further burden on all States departments to identify an additional £1.6 million of savings, service reductions or other benefit changes by 2019.

It is acknowledged that this is an emotive subject, but if this amendment is supported there will be a growing cost of Christmas bonus to be met in the future.

65+ health scheme

This scheme is open to people aged 65 and above, who do not pay income tax, including homeowners. It provides support with the cost of check-ups and treatment in 3 key areas – dental, optical and chiropody. Taken together, these can provide key support in helping pensioners to maintain an independent lifestyle for as long as possible.

However, before putting forward the proposal to invest in this scheme, the Social Security Department also investigated the alternative possibility of restricting the Christmas bonus to income support pensioners, at a similar cost of £200,000 per year.

The Council of Ministers supports the additional investment in the 65+ health scheme, as the benefit provided by the scheme supports lower-income pensioners more effectively, at a time of real, and often unexpected, need. Expanding the 65+ health scheme will give pensioners support throughout the year with unforeseen costs – perhaps a deterioration in eyesight leading to the need for extra glasses, or the replacement of a set of dentures that are making it difficult to eat properly. When weighed against the provision of a lump sum payment at Christmas to all income support pensioners, Ministers concluded that the expansion of the 65+ health scheme would provide a greater level of support to a wider range of pensioners, at the time when it is most needed by the individual pensioner.

The need to review the administration of the 65+ health scheme has previously been acknowledged and is included in the overall project. Initial discussions have already taken place with key stakeholders and, subject to the outcome of the MTFP debate, detailed plans will be drawn up for approval and implementation during 2016.

Amendment (2)(ii)

Closing the TV Licence benefit scheme to new entrants

The proposal to close the TV Licence benefit scheme to new entrants means that all pensioners who already receive a free TV licence will continue to do so.

Other pensioners aged below 75 are already meeting the cost of their TV Licence from their household budget and will continue to do so. The BBC provides a range of payment methods, making it easy to spread the cost over the year.

When considering possible areas to include in these proposals, benefits which deal with expenses that are more difficult for people to budget for have been protected. These include the cold weather bonus, which provides support for heating costs, with its value increasing depending on the severity of the winter. The 65+ health scheme has also been protected (and a proposal put forward to expand the scheme) as this provides targeted support for dental, optical and chiropody costs as they are needed.

As with the Christmas bonus, the cost to the taxpayer of maintaining the TV Licence benefit will rise substantially in future years as the older population increases.

A decision to maintain the TV Licence benefit would require the States to identify additional savings in other areas in the short term, and also to put aside an increased budget for future years as the number of claimants increases.

Amendment (2)(iii)

Maintaining income support components at 2015 levels – claimants aged 65 and above

Most of the income support components will be maintained at their 2015 values for 2 years, whilst the rental (and childcare cost) income support components will continue to increase in line with inflation. The Council of Ministers want to make sure that all income support claimants, including pensioner households, are able to afford their rent increases.

The MTFP budget provides for general component increases in both October 2017 and October 2018.

The written report accompanying this amendment suggests that there has been a reduction in the spending power of pensioners since the beginning of income support. **This analysis is not correct** and a detailed explanation was provided in response to Written Question 8956 tabled by Deputy Southern on 22nd September 2015.

An extract from that response is reproduced below –

> *"The amount of Income Support received by a household depends on both the components that they are entitled to and the disregards (or allowances) that are applied to their own income. Whereas some of the Income Support basic components have been fixed in recent years, the components for paying rent and child care costs have increased in line with inflation. There have also been significant increases in the disregards applied to earnings and pension income.*

As an example, the table below shows that this combination of factors has led to the total income available to an Income Support pensioner not only keeping up with, but exceeding the rise in prices since 2008 by more than 7%.

Example: A single pensioner with a full Jersey pension, renting a 1 bedroom flat.

	October	***October***
	2008	***2015***
Pension income (full rate Jersey OAP)	*172.83*	*199.99*
deduct pension disregard	*-27.09*	*-55.23*
Pension income included in IS calculation	***=145.74***	***=144.76***
Income Support		
Adult component	*89.32*	*92.12*
Household component	*+45.71*	*+51.31*
Rent component	*+148.82*	*+181.30*
Total of all components	***=283.85***	***=324.73***
Deduct net pension income	*-145.74*	*-144.76*
Total Income Support	***=138.11***	***=179.97***
Total household income (pension + IS)	***310.94***	***379.96***
% change in household income 2008 – 2015		*22.2%*
RPI % change 2008 – 2015		*14.9%*
Improvement in purchasing power since 2008		***7.3%***

The measure to maintain some of the income support components at 2015 rates for two years will have some impact on households that claim income support benefit. However, as can be seen above, improvements in Income Support disregards over the last few years have led to a real increase in total household income for many Income Support claimants and whereas it is never easy to restrict benefit budgets, this option helps to minimise the impact on individuals.

At present, increases in RPI are running at historically low levels – the most recent RPI figure published for June 2015 gave an annual increase of 0.9%, with an increase of just 0.4% for the RPI figure published specifically to reflect pensioner spending."

In summary, a typical pensioner receiving income support has seen an improvement in purchasing power since the start of income support. A single pensioner with a full Jersey pension has an extra £23 per week, or £1,180 per year after adjusting for inflation compared to the same pensioner in 2008.

With the low levels of inflation, holding some components steady until October 2017 will have a limited impact on these households. However, the option of not uprating components creates a substantial saving across a large number of claimants, which has a small impact on each claimant. The alternative would be to impose much greater changes on specific groups of claimants.

The amendment to the proposal to maintain income support components has been split across two separate amendments (this one and Amendment (9)). Under the current income support system, adults aged above and below 65 receive the same set of components. A proposal to increase components just for claimants aged over 65 (or under 65) would require significant changes to IT and administrative systems. Additional resources would be required to make these changes, and there would be a delay of a minimum of several months before this split could be implemented. Ongoing administration costs would increase.

<u>Amendment (2)(iv)</u>

<u>The changes to pension income disregard</u>

The proposed change in the method of providing an allowance, or disregard, for pensioners claiming Income Support only affects new claims from 2016 onwards. All existing Income Support pensioners will be allocated the higher of the existing fixed disregard or the new percentage disregard and will not see any reduction in their total income as a consequence of this proposal.

Promoting financial independence includes encouraging workers to save towards a pension for their old age. Under the current rules, the total income, including benefit, is the same for a household claiming Income Support whether it has a small amount of pension income, or a large amount of pension income. One aspect of the overall savings package is to align the treatment of pension income with the treatment of earned income within the Income Support system.

The proposed changes to the treatment of pension income will mean a fairer Income Support system in future, and Income Support households that have provided for their old age will be better off compared to those that have not.

In parallel to this change, age discrimination Regulations are planned for 2016, and the Ministers for Treasury and Resources and Social Security will be working together during this MTFP period on proposals to encourage workers of all ages to make provision for old age through a review of the existing tax and benefit systems.

From January 2016, a new pensioner income support claimant will keep 23% of their pension income outside the Income Support calculation (i.e. this amount is disregarded). With a standard single person’s pension of just under £200 a week, this allows them to retain £46 per week in addition to the full range of Income Support components.

It is acknowledged that there will be some individuals who are already close to pension age who will have little opportunity to take advantage of the more generous treatment of higher pension income under this proposal. However, in terms of the spending power calculation shown above, an Income Support claimant reaching pension age in 2016 relying on a full Jersey old-age pension will still have a spending power which is £13 per week or £700 per year (4.3%) above the 2008 level.

Sustainable Public Finances and Prioritisation and Reallocation of Resources

The Deputy is proposing to maintain certain of the existing benefit provisions by increasing taxes.

- The Council of Ministers has prioritised the proposals in the MTFP on the strategic priorities of the States.
- The package of measures presented in the MTFP has been proposed to reprioritise resources by reducing spending in some areas to invest in other higher priorities for Health, Education, infrastructure, economic growth and improving productivity.
- Each department has considered its priorities and submitted requests for additional funding alongside a spending review which requires savings and efficiencies across the States.
- The Amendment proposals are presented as a package and the States' first strategic priority is sustainable public finances. This is a principle that should be maintained when considering these proposals.

Financial and manpower implications

This Amendment is part of three similar Amendments (2), (8) and (9), which together propose to raise £9.6 million in Income Tax, and not to make the proposed benefit changes.

States Members should consider the proposals as a package with the decision to increase income tax, otherwise the implications could be an increase in spending and projected deficit of £2.9 million in 2019, or cumulatively over £10 million for the period of the MTFP.

The amendment identifies cost implications for each year of the MTFP for each of the changes proposed.

The Social Security Department has published details of the impact of these changes for 2016 and it should be noted that there are some discrepancies between the departmental figures and those identified in Amendments (2), (8) and (9).

The reports published by the Minister for Social Security in respect of associated legislation (e.g. P.103/2015) explain that a degree of flexibility has been incorporated into the overall plan to allow both for unforeseen external pressures to be accommodated, but also for the possibility of improvements in disregard levels during the MTFP. Therefore, at this stage, it is not possible to confirm that the figures identified for each sub-amendment for each year of the MTFP are accurate.

A decision that required separate component levels for income support claimants aged above and below 65 may require additional manpower.