STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2016 – 2019 (P.72/2015): NINTH AMENDMENT

Lodged au Greffe on 22nd September 2015
by Deputy M. Tadier of St. Brelade

STATES GREFFE

MEDIUM TERM FINANCIAL PLAN 2016 – 2019 (P.72/2015): NINTH AMENDMENT

1 PAGE 2, PARAGRAPH (a)(i) –

After the words "as shown in Figure 18" insert the words "except that the intended total amount of States income shall be increased by the amounts in the following table by the introduction of a higher rate of income tax in the 2016 Budget for individuals whose income is greater that £100,000 per year to offset the 2016 financial impact (and the ongoing financial impact in 2017 to 2019) of not proceeding with the proposed savings in the expenditure of the Social Security Department shown –

"	**2016**	**2017**	**2018**	**2019**	
(i)	£1,500,000	£2,900,000	£3,000,000	£3,100,000	Apply index-linking to core components of Income Support (IS)
(ii)	£600,000	£600,000	£600,000	£600,000	Maintain current IS disregards for LTIA/invalidity/survivor's benefits
(iii)	£100,000	£200,000	£200,000	£200,000	Maintain current levels of emergency grants/loans
(iv)	£200,000	£200,000	£200,000	£200,000	Retain current rules for under-25 jobseekers claiming IS

".

2 PAGE 2, PARAGRAPH (a)(ii) –

After the words "Summary Table B" insert the words "except that the total amount of States net expenditure shall be increased in the years 2016 to 2019 by the amounts in the following table by not proceeding with the proposed 2016 savings (together with the ongoing financial effect of these savings in 2017 to 2019) in the expenditure of the Social Security Department as shown –

"	**2016**	**2017**	**2018**	**2019**	
(i)	£1,500,000	£2,900,000	£3,000,000	£3,100,000	Apply index-linking to core components of Income Support (IS)
(ii)	£600,000	£600,000	£600,000	£600,000	Maintain current IS disregards for LTIA/ invalidity/survivor's benefits
(iii)	£100,000	£200,000	£200,000	£200,000	Maintain current levels of emergency grants/loans
(iv)	£200,000	£200,000	£200,000	£200,000	Retain current rules for under-25 jobseekers claiming IS

".

3 PAGE 2, PARAGRAPH (b)(i) –

After the words "Summary Table C" insert the words "except that the net revenue expenditure of the Social Security Department shall be increased for 2016 by the amounts in the following table by not proceeding with the proposed savings in the expenditure of the Department as shown –

"	**2016**	
(i)	£1,500,000	Apply index-linking to core components of Income Support (IS)
(ii)	£600,000	Maintain current IS disregards for LTIA/invalidity/ survivor's benefits
(iii)	£100,000	Maintain current levels of emergency grants/loans
(iv)	£200,000	Retain current rules for under-25 jobseekers claiming IS

".

DEPUTY M. TADIER OF ST. BRELADE

REPORT

This Amendment is supported collectively by Reform Jersey.

After 7 years of recession and an economy in which growth in jobs was dominated by low-paid work, the 2015 Budget, supposedly the third year of a Medium Term Financial Plan, saw a shortfall in tax revenues of around £70 million. In order to try to balance his Budget, the then Minister for Treasury and Resources, Senator P.F.C. Ozouf, proposed a series of one-off panic measures which cannot be repeated in coming budgets. He took all the savings and gambled on a recovery in interest rates in the near future. In the light of the current turmoil in the Chinese and other world markets, a rise in interest rates appears increasingly unlikely. The promise of medium-term planning rather than short-term annual tax and spending plans fell at the first attempt.

Little seems to have improved in the MTFP for the years 2016 to 2019. There is no evidence of any longer-term planning. Instead we are asked to approve tax and expenditure figures for 2016 alone, with only indicative forecasts for 2017 onwards. We have a two-stage short-term plan. Furthermore, the Council of Ministers promised no tax rises during the elections, but has manifestly failed to deliver. We are faced with a health charge to raise £35 million, and a sewage charge to raise a further £10 million by 2019. Note the use of the word "charge". We have no indication of the form in which these 2 new taxes are to be imposed; that remains to be seen in stage 2 of this plan, although we are asked to accept the principle of £45 million of additional taxes, unseen, in 2015.

The Council of Ministers is ideologically driven to try to reduce the size of the state, which is seen as inefficient. (This is despite several Ministers and Chief Officers telling us in Scrutiny that they are already running on a shoestring and with too few personnel.) Their mantra appears to be *public, bad; private, good*. This enables them to campaign for taxes to be kept as low as possible. However, this low-tax, low-spend economic model is now under impossible strain. Reform Jersey argues that this model is in fact broken. It is broken because –

(a) the costs for an ageing society (pensions, medical and care costs) are rising: these costs will continue to rise, and must be met;

(b) the Ministers have deliberately transferred the burden of tax from companies to individuals (zero/ten, GST, 20 means 20).

The Council of Ministers fails to recognise that lower- and middle-earners have been subject to large-scale rises in taxation year after year for the past decade. The time has come to implement progressive changes to our tax structure. That is, the highest earners should be asked to contribute a little more to the increasing costs of caring for and protecting the elderly and the most vulnerable in our society.

The Council of Ministers instead proposes in the MTFP a programme of reductions to public services. In the words of the Treasurer –

> "**To reduce, cease or outsource public services**".

Worse still, the MTFP contains proposals to cut £10 million from the protection in place for the poorest and most vulnerable in our community; those who have to rely on Income Support to live a moderately decent life.

Reform Jersey is committed to the protection of essential public services. In order to do this, we believe that the time has come to introduce a higher rate of income tax for all individuals earning over £100,000, and to use this additional tax revenue to prevent the proposed cuts to support for pensioners, single parents, children and the disabled contained in the MTFP.

The sums available to protect the support to the poor and vulnerable were revealed by an FOI request concerning the numbers paying income tax on earnings by earnings band. The original FOI request considered the income of personal tax entities (being single people, married couples or civil partnerships). The answer therefore reflected the income by tax entity and not by each individual.

Following a further request for a breakdown of income tax by individuals, the original analysis was re-run on 24th August 2015. The results are presented below.

Taking into account updates to the database, the total number of tax entities analysed below is 60,486.

Income Range by Individuals

		Married Couples/ Civil Partnerships as individuals		
Row Labels	**Single**	**Self/1st Partner**	**Wife/2nd Partner**	**Grand total**
Greater than or equal to £500k	51	139	6	196
£400k – £499k	22	75	7	104
£300k – £399k	36	107	14	157
£200k – £299k	109	321	34	464
£100k – £199k	594	1,418	196	2,208
£50k – £99k	3,277	3,962	1,409	8,648
less than £50k	33,447	13,462	14,792	61,701
No income	2,877	589	3,615	7,081
Grand Total	40,413	20,073	20,073	80,559

Please note the following:

- The top banding is for an income range >£500k and not >£1m as in the FOI answer. This is to protect individuals from the possibility of being identified due to the small numbers presented.
- The income and tax figures shown in the answer to the FOI request are inclusive of Taxed at Source (TAS) income. Due to the way this data is gathered, it is not possible to attribute this income to an individual within a married couple or civil partnership. TAS income is therefore excluded from the analysis shown here.

The following table gives the additional revenues generated by an increase in the tax rate from 20% to 25% on those individuals earning over £100,000 annually. For the sake of simplicity, the average income is taken as the mid-point of each income band. This measure has the capacity to generate some £17 million in additional revenue. Restricting the higher rate to, say, an additional 3%, generates enough revenue to replace the cuts proposed by the Minister for Social Security to reduce benefit support by £10 million.

Income band, £	**Average Earnings over £100k**	**Number of individual taxpayers**	**Additional tax revenues**
100k – 199k	£50k	2,208	£5.5m
200k – 299k	£150k	464	£3.5m
300k – 399k	£250k	157	£2.0m
400k – 499k	£350k	104	£1.8m
>500k	£450k	196	>£4.4m
	Total:	3,129	>£17.2m

Freeze Income Support living components

An earlier amendment dealt with the impact of not index-linking benefits for the 1,692 pensioner households who rely on income support to maintain a decent standard of living. Here we address the situation of the 4,860 working-age households dependent, for a variety of reasons, on Income Support in the long or short term. These households make up 75% of IS claims. Amongst them are 2 further groups who might be said to be the vulnerable, that is, those whom the Minister is committed to "safeguard".

These vulnerable groups are those with a disability, who make up 22% of claimants, and those children being brought up in households containing 2 adults (15% of IS claimants).

Just as the proposal to freeze the core (living) components has an impact on pensioners, so it has a similar or greater impact on these working-age households, as the value of IS claims are greater in households with children. Like any benefit or fiscal measure, Income Support's effectiveness depends on 2 things –

(a) the level set initially; and

(b) maintaining the correct level by proper indexing to avoid 'fiscal drag'.

The Minister for Social Security proposes the freezing of the 4 core components of Income Support at the 2015 levels until 2018.

The first thing to recognise is that the lack of proper indexing of Income Support over the past 7 years has already reduced the spending value of the benefit.

In October 2008, the 4 basic components of Income Support were set as follows –

2008	Adult £89.32	Single parent £128.92	Child £60.27	Household £45.71
2015	Adult £92.12	Single parent £132.12	Child £63.98	Household £51.31
% change	3.1%	2.5%	6.0%	12%

Over this 7-year period, average earnings have risen by 12% and the RPI has risen by 13.5%. Only the household component of the 4 living components has risen in line with RPI. The other core components have been reduced significantly in purchasing power.

To put it another way, to restore the purchasing power of the worst-off recipients of Income Support to what it was in 2008, the adult component, for example, if properly indexed, should have been raised to £98, not £92. The value of income support has markedly reduced.

Children

The Minister now wishes to freeze the value of the core components at the 2015 level. Using the economic assumptions contained in the MTFP, which has RPI at 3.1% in each year, the plan to freeze the core components for the years 2016 and 2017 of the MTFP will result a family of 2 adults and one child in need of income support being some £15 per week worse off by 2018, as they see the value of their core components eroded.

Members will note that the proposal to freeze components for 2 years comes with no recent research to back it up. The most recent figures come from the Income Distribution Survey (IDS) 2009/10, which show that the impact of the introduction of Income Support in 2008 markedly reduced the numbers of both pensioners and children living in relative low income. Further, we can see a similar reduction for children in households with 2 adults.

Individuals living in relative low income households, after housing costs, 2002 and 2009/10

	After housing costs	
	2002	**2009/10**
Children	33	24
Pensioners	33	26
Couple at least one dependent child	28	19

Derived from Tables 24 and 26, IDS 2009/10

To put at risk this improved position without a serious impact assessment is foolhardy. To go further and propose preparing the way for a reduction in the child component for second and third children, as the Minister does, without appropriate research, beggars belief.

Disability

Examination of the data presented in the Minister's Report of 2013 reveals that almost one in three of those claiming Long-Term Incapacity Allowance (LTIA) or Invalidity Benefit (INV) live in households with incomes sufficiently low as to need Income Support. Of these households, the average LTIA income is around £115 per week, or 60% of the maximum award. This is well above the threshold for those who are expected to be actively seeking or preparing to seek work. These individuals are in low income because they cannot reasonably be expected to be employed because of their disability.

It is important to note here that the more recent benefit, LTIA, is "compensation for loss of faculty", either through illness or injury, unlike its predecessor INV, which was designed as "income replacement" and therefore did not allow recipients to work. Despite this change on function, under income support rules LTIA is treated of income to the household and is subject to a 6% disregard. In addition to the loss in purchasing power caused by the absence of indexing the living components, on average, those in Income Support would be £7 per week better off than they would be once to disregard is scrapped under the Minister's proposals.

Emergency grants/loans

The vast majority of recipients of Income Support have no resources to fall back on in times of financial stress. If the benefit cheque does not arrive on Friday, this may mean a weekend without food or electricity for some. So when it comes to some larger items – the deposit for a flat, the cost of carpets or a replacement cooker or fridge, emergency dental work, or a new pair of glasses, new school uniform – these often cannot be afforded. An emergency grant or loan must be applied for. If the result is a loan, however, the repayments can often cause problems as well. When you are reliant on Income Support to provide for your basic needs, then the retention of, say, £21 per week over a number of weeks makes life extremely difficult. £21 per week (£3 per day) is a common rate of repayment and can and does cause hardship. Increasing the ratio of loans to grants will inevitably lead to greater hardship amongst those on a very basic income.

Under-25s living at parental home

P.106/2015 Com. – Draft Act annulling the Income Support (General Provisions) (Amendment No. 17) (Jersey) Order 2015 (P.106/2015): comments

The above named Comments point out that the proposed annulment, lodged by Deputy G.P. Southern of St. Helier, of this Order restricting the payment of the adult component of Income Support to the adult child in a household contains no measure to make up the shortfall of £200,000 which would be brought about by approval of P.106/2015. Should the annulment prove successful, I have added this sum to the total package of tax changes required to maintain the MTFP in balance.

Financial and manpower implications

This amendment is designed to be financially neutral, with the additional costs of not proceeding with the savings proposed by the Minister for Social Security from 2016 being met by the introduction of a higher rate of income tax for individuals earning over £100,000 per annum. There are no manpower consequences arising.