STATES OF JERSEY

Jersey

DRAFT SOCIAL SECURITY (AMENDMENT OF LAW No. 12) (JERSEY) REGULATIONS 202- (P.31/2020) AMENDMENT

Lodged au Greffe on 1st April 2020
by the Health and Social Security Scrutiny Panel

STATES GREFFE

DRAFT SOCIAL SECURITY (AMENDMENT OF LAW NO. 12) (JERSEY) REGULATIONS 202- (P.31/2020) AMENDMENT

1 PAGE 7, REGULATION 2 –

In Regulation 2 for the inserted paragraph (4) substitute –

“(4) There is no obligation under paragraph (3) to pay into the Social Security Fund an amount for the year 2020”.

2 PAGE 7, REGULATION 3 –

In Regulation 3 for sub-paragraph (b) substitute –

“(b) in paragraph (4)(a) for “each of the years 2019, 2020 and 2021” there is substituted “the years 2019 and 2021”.

HEALTH AND SOCIAL SECURITY SCRUTINY PANEL

REPORT

P.31/2020 − Draft Social Security (Amendment of Law No. 12) (Jersey) Regulations 202- was lodged by the Minister for Social Security on 25th March 2020, in light of the ongoing Covid-19 pandemic. As stated in the report accompanying the draft Regulations, the changes proposed therein would, if adopted, remove the obligation to pay any States Grant, from the Consolidated Fund, into the Social Security Fund ("SSF") during 2020 and 2021. It is noted that the purpose of these changes is to further assist the Minister for Treasury and Resources in addressing the financial implications of Covid-19.

As a result of a number of concerns raised by States Members during the debate on 27th March, and due to its own reservations, the Panel decided to call in P.31/2020, in order to undertake further work on the draft Regulations. Subsequently, the debate of P.31/2020 is now due to take place on 2nd April 2020.

On 31st March the Panel received a joint briefing from the Minister for Social Security and the Minister for Treasury and Resources. Prior to the briefing, the Panel circulated a series of written questions to both Ministers and their Officers on the Draft Regulations and a response was received on the same day (see **Appendix**). The Panel would like to thank them for providing quick and thorough responses to the Panel's queries, which helped inform the subsequent briefing.

The Panel understands that the draft Regulations have been brought forward to respond to the current crisis. The Panel is fully supportive and understanding of the need to remove the obligation to pay the States Grant into the SSF during 2020, in order to respond immediately to priority areas. However, it also accepts that at this current time the Government is unable to provide an analysis of the impact of the pandemic on Jersey's economy and, in particular, on employee and employer contributions. Whilst we feel that it would be unreasonable to request an economic forecast at this time, the Panel is of the opinion that, before a decision is made to remove the obligation to pay the States Grant into the SSF in 2021, such work should be undertaken. If the outcome of the forecast indicated a strong need to defer the payment of £65.3 million into the SSF in 2021, to address the financial implications of Covid-19, then the Panel would support this proposal.

During its review of the draft Regulations the Panel queried whether the funds of £130.6 million would be returned to the Social Security Fund in the future to ensure that future pensions and benefits were not unnecessarily reduced. It was advised that, once the disruption had passed, the Ministers for Treasury and Resources and Social Security would consider how and when the money would be retuned, but that this was likely to take a number of years and balanced with the Government's other priorities. Due to the current uncertainty of Jersey's economy going forward, the Panel understands that at this time the Ministers are unable to provide a clear explanation of how and when the money will be reinstated into the SSF. For this reason, however, the Panel would argue that until an economic forecast has been undertaken and further assurances can be given as to the necessity for deferring the obligation for another year, the obligation to pay £65.3 million into the SSF in 2021 should remain.

The Panel also does not feel that it can support the removal of the obligation to pay the States Grant in 2021 until it has received further clarification as to how the funds will be used in response to the outbreak of Covid-19. We acknowledge that the Council of Ministers have committed to providing a support package worth up to £280 million to assist Islanders and businesses during this difficult time, and the Panel does recognise that more support will be needed to ensure that the economy recovers quickly and effectively once the outbreak has concluded. However, it also notes that £500 million worth of borrowing and a drawdown of £400 million from the Strategic Fund has already been agreed by the States Assembly.

To be clear therefore, in addition to the Panel's amendment, it requests that an economic forecast is undertaken within 6 months to ascertain whether there is an urgent need to defer the 2021 transfer of £65.3 million from the Consolidated Fund into the Social Security Fund. In 6 months' time, the Panel believes that the Minister for Treasury and Resources will be in a better position to provide the States Assembly with evidence that supports the need to reduce the overall income into the fund in 2021.

Conclusion

In consideration of the above, this amendment seeks to maintain, at this time, the obligation to pay the States Grant of £65.3 million into the SSF in 2021. Alongside its amendment the Panel requests that an economic forecast is undertaken by the Minister for Treasury and Resources within a 6-month period, which would allow the States Assembly to reassess whether there is a need to remove the obligation to pay the States Grant in 2021. The Panel believes that this is appropriate given the current and future uncertainty the Island faces, and hopes the States will support its amendment.

Financial and manpower implications

If the Panel's amendment were to be adopted, the Grant to the SSF would be set to zero for 2020, but would return to £65.3 million in 2021. This will increase the funds available in the Consolidated Fund by £65.3 million, but only in 2020.

There are no manpower implications arising from the adoption of this proposed amendment.

ANNEX TO REPORT

Health and Social Security Scrutiny Panel

P.31/2020

1. What services earmarked by the £50 million will be affected in 2020-2023 in the Government Plan?

In the Government Plan, The States agreed to the staged reinstatement of the States' Grant over the years 2020, 2021 and 2022 – rather than immediately reinstating it at its full value. This released a total of £50 million by 2023, while still ensuring the long-term sustainability of the Fund.

The current proposal does not change this, the £50 million will still help to fund service areas which were previously underfunded and will help our most vulnerable people.

The Government did however commit to reconsidering the balance between the funding by contributors and the taxpayers (the Grant), given the very significant amount of taxpayers' funding that is paid into the Social Security Fund every year, £93m by 2023.

2. Did the Chief Minister approve of this decision that "kicks the can down the road"?

COM want to support Islanders and businesses at this extremely difficult time by providing a support package worth up to £280 million[1]and in all likelihood more further down the road and also to ensure that funds remain available to ensure that the economy recovers effectively and with speed once the outbreak is concluded. This proposal helps to pay for this support in the most appropriate and least harmful way – it is not kicking the can down the road. The Social Security Reserve Fund still has in excess of an estimated 6 years' of annual expenditure from the Fund. Even in these extremely challenging times, this is higher than the target set by the then E&SS Committee in raising contributions in the late 1990's.

3. What is the true value of the Fund based on the economy since Brexit/COVID-19? –

END FEB 2020
SS Fund: £58.2m
SSR Fund: £1.885bn

ESTIMATED on 25th March
SS Fund: £58.0m
SSR Fund: £1.645bn

[1] https://www.gov.je/News/2020/Pages/PayrollCoFundingScheme.aspx

This value is almost 6.5 years of annual spend from the Fund

4. What other considerations have been given to raising the funds required to meet this unprecedented demand for more financial resources?

£500m borrowing agreed by States Assembly and a drawdown from the Strategic Reserve of up to £400m. All Depts have been asked identify expenditure that should stop, will slip due to Covid 19, or can be mothballed until further down the line. This is one such measure.

5. What will be the real effects be on pensions in the future?

The proposal will not affect Social Security pensions in the future. These are set by law. The Social Security Funds have significant reserves and can absorb the £130 million. £130m is about 8% of the Funds' estimated value.

The Fund will also benefit from the payroll co-payment scheme which will pay for 80% of earnings up to £2,000 for employers affected. This will help to make sure that many people will keep their jobs. It will also mean that businesses can continue to employ people and pay their Social Security contributions later in the year.

6. What is the effect on any previously projected curve on the ability to meet demand for pensions over the next 20 years?

The proposal will not affect the Social Security Fund's ability to meet demand for pensions over the next 20 years, but it will have a limited impact over the next 50 years.

The proposal will mean that the Social Security Fund won't get the investment returns on the £130 million that it would otherwise have received. This is estimated to be about £7-£8 million per year, on a long-term average, based on actuarial assumptions, and would grow over time until the £130 million is replaced. In the short to medium term these returns would depend on whether the funds were held in liquid and stable assets or growth assets.

The future value of the fund and its ability to fund future pensions is heavily dependent upon a large number of assumptions, primarily in respect of the number of pensioners, net immigration and the working population and return on investment. All of these assumptions may require to be fundamentally reviewed as a consequence of the current emergency situation. The next actuarial valuation of the scheme in 2022 will seek to address all of these issues once the impact of the COVID 19 shock is better understood.

7. What impact does the withholding of £130,000,000 do to benefits for the future?

The Social Security Funds have enough money to pay for all the contributory benefits including the old age pension.

8. The payment of employer and employee contributions has been suspended for six months. Will the Minister inform the Panel what estimate she has of how much this is worth?

Contributions for small businesses and the self-employed for the first half of 2020 will be delayed by a year. Businesses employing over 80 people will be able to apply to defer their contributions if they have been significantly affected as well.

We estimate that this will provide a cash flow improvement of about £75 million to these businesses and will also make it more likely that they will be able to keep their employees.

This also reduces the cashflow by a similar amount into the Social Security Funds this year.

9. Does the Treasury Minister intend to pay back to the reserve fund these sums in order to ensure that future pensions and benefits are not unnecessarily reduced?

Once the disruption has passed, the Treasury Minister and Social Security Minister will consider how and when the money could be returned back to the Social Security Funds. This will likely need to be over a number of years and balanced with the government's other priorities.

Ultimately it is not "government" that pays for this grant, it is the taxpayers of the Island.

10. The withdrawal of £130,000,000 worth of supplementation will add to the reduction in the value of the pension fund of around 20% which means that the reserve fund is only currently £1.6 billion. Does the Minister agree that now is not the time to cash in this loss but, due to interest rates, it is time to borrow for current expenditure?

Absolutely, we are already borrowing and the Treasury Minister has received independent advice that this is the correct action to take.

11. If all of a sudden, the Treasurer needs "cash quick to pay the bills by next Friday" can we have a full breakdown and explanation as to what payments they are, and why there is no other cash to pay them suddenly?

This is a gross misrepresentation. We do not need the money by next Friday. However to be clear Departmental services are funded (cash flowed) from taxation and other income received. GST has been deferred for 2 quarters, it is not expected that there will be much GST being incurred in the coming weeks.. We don't expect much stamp duty at all for the next 6 months and thereafter reduced Housing market activity. We are currently working through expectations of forecasts of ITIS and corporate taxation, but at this stage both are expected to be heavily impacted, as is departmental income. The States Assembly approved significant expenditure for 2020, and there is circa £200m of capital expenditure approvals outstanding. From the above it is clear to see that without expenditure reductions or slippages in departments, incoming cash flow will not be sufficient to meet outgoing expenditure. Borrowing and transfers from the Strategic Reserve would be used to balance the books before being used for the extra expenditure requirements, such as the Payroll Co-payment scheme, and additional assistance for those with less than 5 years' residency as well as additional Income Support payments and rising healthcare costs.

The temporary reduction in the grant from taxpayers to a fund with many years of expenditure, effectively, is a measure in these unique circumstances that quickly releases liquidity for the current year.

12. Why haven't the cash assets been taken from all States arm's-length bodies (i.e. JDC, JT, etc.)

We have been in dialogue with these entities. However they too are facing potential cash flow pressures as deferral of bills kicks in. Taking money from the balance sheets of the States' wholly-owned companies simply transfers the problem and could create issues about their viability as going concerns. They are also being asked to follow Government policy wherever possible which means retaining their costs whilst being flexible on revenue collection. However this position will be kept under review.

Appendix - Social Security Funds reserve balances

The last actuarial review (2017) showed that the Social Security Fund, valued then at £1,779.6m, would be able to continue to pay the old age pension and other contributory benefits for at least the next 50 years.

Since then the value of the Social Security (Reserve) had increased by £135.1m to £1,986.7m as at end of 2019. The current estimated valuation reduces this balance to £1,645.5m roughly the valuation of the Fund in mid-2017, six months before the last actuarial valuation.

Extra questions

1. How much money is liquidity?

Current estimates of liquidity (excluding equities) as at 18 March 2020

Consolidated Fund	Stabilisation Fund	Social Security Fund	Social Security Reserve Fund	**TOTAL**
£202.1m	£50.3m	£58.2m	£298.5m	**£609.1m**

2. Is it necessary to divert all funds at once? Can some continue going into the fund?

The severe cash pressure the Government is facing makes this option difficult to implement. The reserve fund will continue to receive investment income on the assets it has.

3. What are the plans for repaying the money that will be diverted from the fund?

Same as Question 9 above and it is intended that the social security employer and employee contributions deferred in 2020 will be recovered in 2021.

4. Should we not be paying into the fund in the current climate as the value of things go up (as an opportunity to increase funds)?

The Covid-19 pandemic is placing severe financial stress on governments across the globe. The global approach has been for governments to seek to protect people, businesses and the wider economy and this is the approach being taken by the Government of Jersey.

Protecting vulnerable people and affected businesses is the Government's priority at present. Borrowing or removing cash from the economy through taxation to invest in financial assets would be detrimental right now to these efforts. It would also be a high risk strategy at present, particularly with the current level of uncertainty in the global economy and financial markets.