STATES OF JERSEY

DRAFT MEDIUM TERM FINANCIAL PLAN ADDITION FOR 2017 – 2019 (P.68/2016) – THIRD AMENDMENT (P.68/2016 Amd.(3)) – COMMENTS

Presented to the States on 26th September 2016
by the Council of Ministers

STATES GREFFE

COMMENTS

This amendment from Deputy G.P. Southern of St. Helier proposes that –

- A dedicated health charge should not be introduced – this will reduce States' General Revenues to the Consolidated Fund by £7.5 million in 2018 and £15 million in 2019.
- An equivalent saving should be provided through reducing the Social Security Department's net revenue expenditure by £8.3 million and £16.8 million in 2018 and 2019 respectively, and achieved through reducing the value of the States Grant (Supplementation) paid from the Consolidated Fund into the Social Security Fund by these amounts.
- In turn, that reduction of income into the Social Security Fund should be compensated for by an increase in class 2 contributions and employer's contributions between the standard earnings limit and the upper earnings limit to increase the rate from the current level of 2%, up to 4% in 2018 and then up to 6.5% in 2019. These additional Social Security contributions are estimated to raise a total of £7.8 million in 2018 and £18.0 million in 2019.
- The additional cost of the associated Social Security contributions for public sector workers of £0.8 million in 2018 and £1.8 million in 2019 would need to be paid, and the Deputy proposes that this additional funding is allocated to Contingency expenditure for Central Allocation – pay, PECRS and workforce modernisation.

Members should also be aware that the final part of Deputy Southern's proposals require an Amendment to P.82/2016, which seeks to removes the requirements within the Health Insurance Fund transfers that a health charge is in place for 2018 and 2019.

The Council of Ministers opposes this Amendment and urges States Members to reject it.

Council of Ministers' Comments

Sustainability of the Social Security Fund

- The number of pensioners in Jersey is growing rapidly, and the increasing cost of old-age pensions is placing a considerable pressure on the Social Security Fund.
- A major review of the Social Security Fund will start in October 2016 to address this issue, and to identify the actions needed to keep the Fund sustainable over the next 30 years.
- The impact of this amendment is to increase contribution levels **without any extra income flowing into the Fund itself.**
- This means that any increase in contributions needed to maintain the viability of the old-age pension will need to come on top of the changes proposed in this amendment.

- If this amendment is approved, it is more likely that any change in contributions needed to maintain the value of the old-age pension will need to be imposed on all employees and all employers at all wage levels.

Health Strategy

- The current Strategic Plan identifies health care as a key priority, and this MTFP identifies £40 million of annual growth funding for improving the quality and range of health care services available to Islanders

- Creating an additional dedicated income-stream to help fund these improvements in health care was identified in the MTFP published in 2015 and agreed last October by the States Assembly.

Primary Health Care

- At present, the Health Insurance Fund supports the cost of G.P. visits and prescription drugs. The increasing cost of primary health care means this Fund is no longer collecting enough income each year to cover these costs.

- The proposed introduction of a dedicated health charge is a significant step towards the possibility of achieving a fully integrated funding mechanism for all health costs across the Island.

- Supporting primary care services is a key element of the health strategy for the Island, and any restriction in future funding in this area is likely to have a detrimental effect on health care as a whole.

- At present, as part of the overall rate of 6.5%, employers contribute 1.2% towards primary health care costs on wages up to the standard earnings limit. The remaining 5.3% is the employer's contribution to the Social Security Fund.

- The amendment from Deputy Southern requires that all the extra contributions are allocated to the Social Security Fund. If the existing split between contributions into the Health Insurance Fund and the Social Security Fund were replicated for this additional contribution, an extra £4.8 million would go into the Health Insurance Fund.

- Supporting primary care services is a key element of the health strategy for the Island and, if this amendment is approved, any increase in health insurance contributions needed to maintain support for primary care services is more likely to affect all employees and all employers at all wage levels.

Economic issues

- Although the proposal is to increase employers' contributions, it is important to consider who would bear the incidence of this increase, just as when we think about the incidence of tax, we need to remember that businesses do not pay tax, people do. An increase in employers' contributions increases the cost of employing people and could impact on Islanders through a number of routes –

- employers could increase prices to offset the increase in costs
- reductions in the number of people employed to minimise the increase in employment costs
- reduced dividends for shareholders (which could deter investment in the island).

- How the change would feed through the economy does depend on the nature of the markets for the final product/service and whether they are domestic or export, the degree of competition from imports and the responsiveness of demand to price changes. However, whatever the outcome there is a real risk that raising the cost of employing people will lead to businesses employing fewer people than would otherwise have been the case. With many businesses in Jersey exporting outside the Island, increasing employer contributions could reduce their competitiveness.

- Increasing the costs of employing people in Jersey at a time when we know the Island faces significant economic uncertainty following the UK referendum result, would bring even greater risks. Economic uncertainty can in itself lead to businesses putting off decisions about investment and employment, and increasing the costs of employing people in this environment would be unwise.

- The Deputy indicates that the purpose of this amendment is to recover lost tax revenues from companies who benefitted from the reduction in company income tax under the zero/ten changes. However, the amendment is not targeted at companies; but at employers, irrespective of what legal form they take or whether they are paying corporate tax. The amendment is therefore badly targeted for this purpose, and as described above, may simply impose costs on Islanders and fail to achieve its primary aim.

- The proposal to increase self-employed and employer contributions by a significant percentage over a 2-year period should not be taken without proper consultation with local business and employer bodies.

- The proposed health charge is based on a broad income base that includes all income, not just earned income. By contrast, contributions through the Social Security system are only levied against wages and add to the cost of doing business in Jersey. People receiving an old age pension are not required to make Social Security contributions, further narrowing the base compared to the income tax system. This means that those who do pay, have to pay higher rates than they would under a broader-based measure.

Conclusion

In light of the significant negative impact on the future of the Social Security Fund and the lost opportunities for the Health Insurance Fund, and the clear risks of increasing employment costs at a time of significant economic uncertainty, Members are strongly recommended to reject this amendment.

Note that this amendment is linked to an amendment to P.82/2016.

- P.82/2016 proposes transfers from the Health Insurance Fund of £15 million to the Health and Social Services Department over the next 3 years. These transfers are designed to facilitate the introduction of the new health charge, and would be used to support the cost of ongoing primary care services provided by the Health and Social Services Department.

- This primary legislation lodged by the Minister for Social Security to create these transfers currently includes a specific link between the transfers and the setting-up of a dedicated health charge.

- Deputy Southern's amendment to the MTFP does not replace this funding-stream, and the transfers out of the Health Insurance Fund will still be required if his amendment is approved.

- To allow for this, Deputy Southern has lodged a separate amendment to remove this legal condition. If approved, the amendment to P.82/2016 would allow for the transfer of £15 million out of the Health Insurance Fund without any requirement for a new funding-stream for health costs to be established. (See the comments in respect of P.82/2016 for further details.)

Financial implications

Overall financial position

The intention of the Amendment is to replace the proposed income-based health charge with an increase to Social Security class 2 contributions and employers' contributions between the standard earnings limit and the upper earnings limit, increasing the rate from 2%, to 4% in 2018, and 6.5% in 2019.

However, the financial implications are complicated because the proposed health charge provides income to the Consolidated Fund, and the proposed alternative revenue-stream provides income to the Social Security Fund.

The offsetting mechanism is to reduce the States' Grant to the Social Security Fund (Supplementation) from the Consolidated Fund by an equivalent amount to the proposed health charge, after allowing for the cost of the States' own employer contributions.

Changes to the MTFP Addition proposals

The Deputy is proposing to reduce the Social Security Department's proposed net revenue expenditure in Summary Table B by £8.3 million in 2018 and £16.8 million in 2019 in respect of a reduction in the level of the States' Grant to the Social Security Fund.

The Deputy is also proposing to provide for the increased costs to States departments in respect of increased Public Sector employer social security contributions by increasing the Central Allocation – pay, PECRS and workforce modernisation by £800,000 in 2018 and £1.8 million in 2019 in Summary Table C.

The proposed reductions in expenditure in Summary Table B and Summary Table C of £7.5 million and £15 million are equivalent to the proposed reduction in States income as a result of the removal of the health charge, which leaves the Financial Forecast (Figure 15) and Consolidated Fund forecast balance Summary Table F unchanged.

The final part of the Deputy's proposal is important and is contained in the Amendment to P.82/2016. P.82/2016 amends the HIF Law to allow £5 million per annum to be transferred to the Health and Social Services Department in each of the years 2017, 2018 and 2019. The Deputy's Amendment to P.82/2016 removes the condition that a health charge has to be in place for the 2018 and 2019 transfers to take place.

Without all parts of the Deputy's proposals being adopted, the impact would not be neutral and the Consolidated Fund could be affected.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

These comments were received by the States Greffe after the deadline set out in Standing Order 37A because the Council of Ministers wanted to ascertain the views of members and to ensure proper consideration was given to the Amendments and the later Amendments to Amendments, to provide the latest information ahead of the debate.