STATES OF JERSEY

GOVERNMENT PLAN 2020–2023 (P.71/2019): NINTH AMENDMENT (P.71/2019 Amd.(9)) – SECOND AMENDMENT

Lodged au Greffe on 15th November 2019
by Deputy G.P. Southern of St. Helier

STATES GREFFE

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1 PAGE 2, PARAGRAPH 1 –

For the words "increased from the proposed £250,000 to £500,000" substitute the word "abolished"; and for the words "between the Standard Earnings Limit and the Upper Earnings Limit" substitute the words "above the Standard Earnings Limit".

2 PAGE 2, PARAGRAPH 1 –

For "4%" substitute "6.5%".

DEPUTY G.P. SOUTHERN OF ST. HELIER

Note: After this amendment, the ninth amendment would read as follows –

1 PAGE 2, PARAGRAPH (h)(i) –

After the words "contribution liability" insert the words ", except that the Upper Earnings Limit shall be abolished, and the percentage rate levied on Class 1 employers and Class 2 contributors on earnings above the Standard Earnings Limit shall be increased from the proposed 2.5% to 6.5%, increasing the estimated closing balance on the Social Security Fund shown in Summary Table 8(i) by £8,700,000".

2 PAGE 3, PARAGRAPH (h) –

At the end of paragraph (h), insert the words –

"to request the Minister for Social Security to –

(1) bring forward proposals to the States to extend the period covered by Maternity Allowance under the Social Security (Jersey) Law 1974 from 18 to 26 weeks, with effect from January 2020, at an estimated cost of £3,000,000 in 2020;

(2) raise the maximum amount payable as Maternity Allowance under the Social Security (Jersey) Law 1974 from £222 to £280 weekly, at an estimated cost of £3,000,000 in 2020; and

(3) amend the Income Support (General Provisions) (Jersey) Order 2008 in order to introduce a 100% disregard for income from Parental Benefit for households in receipt of an Income Support award, at an estimated cost of £2.9 million in 2020; and".

REPORT

This Council of Ministers, and indeed this Assembly, has committed to the following strategic priority:

> "We will reduce income inequality and improve the standard of living."

Why this is a shared priority

"Our average income per person is high, but this hides large gaps between the highest and lowest earners. There is concern about growing levels of income inequality and the negative effect this will have on our community and economy."

Evidence from around the world supports the view that the most successful communities both socially and economically are those with the lowest income inequality.

"What we will achieve

As a result of our actions during our term of office, we will:

- *Reduce levels of people living in relative low income*
- *Deliver affordable and good quality housing*
- *Work towards a society where everyone has opportunities, helping people to participate*
- *Achieve a fair balance between wages, taxes and benefits, rents and living costs*
- *Achieve a labour market that provides good-quality jobs, removing barriers to and at work".*

Achieve a fair balance

In order to achieve this goal, we cannot just rely on indirect support such as "inclusivity programmes", useful though they may be, for those on low or fixed incomes. Nor indeed can we rely on the way things have been done previously.

The most glaring example of the lack of balance that we have inherited from the past is the treatment of Social Security contributions payable on earnings as they rise through the Standard Earnings Limit ("SEL") (£53,000). Members will be aware that as wages rise, then the rate of contribution is reduced. Below the SEL, the employer pays 6.5% and the employee 6%; above the SEL and below the Upper Earnings Limit, the employer pays 2% and the employee pays zero.

At a time when States' employees are being asked to re-apply for their own jobs at lower grades in order to target efficiency savings of £100 million over the period of the Government Plan, the Minister for Social Security is content to fiddle around on the margins of the contributions system to raise £3 million to fund equal rights to parental leave. It is time to recognise that the regressive structure of contributions can no longer be tolerated in the 21st Century.

Social Security contributions

Funding of the Island's Social Security provision has traditionally been on a 'one third' principle; that is, one third from employers' contributions (5.3%), one third from employees' contributions (5.2%) and one third supplementation from States' taxation revenue.

Contributions as tax, not insurance

The principal advisers to previous Finance and Economics Committees and Ministers, OXERA, discussed changes to Social Security contributions as a mechanism for increasing the States' income as long ago as May 2002. It is interesting to note that, in their discussion, the authors consistently refer to the contributions, whether from employers or employees, as a form of tax.

They noted that, whilst the roots of the Social Security Fund are to be found in the Insular Insurance Scheme of 1950, which was promoted as a form of insurance on the user-pays principle, i.e. your contributions paid for your own pension/ benefits. However, since 1974 the Fund has been financed on the pay-as-you-go principle. This means that expenditure on benefits and administration is met broadly from income from contributions and the States' supplement in the same year. The distinction between the old insurance basis and the taxation basis since 1974 is not merely a philosophical matter, but is essential to the proposed change in funding.

Whilst the changes proposed in the ninth amendment go some way to removing the regressive nature of the system, it still results in those on higher incomes paying proportionally less and the cap on contributions, although high, means some of the very highest earners avoiding proportionate increased contributions. The removal of the cap combined with the application of the uniform rate of 6.5% on employers, no matter what level of remuneration their employees receive, raises some £24 million in addition to the figures in Table 8(i).

This results in ample funding being available to fund the 3 improvements to the delivery of parental benefits detailed in the ninth amendment, costing some £8.9 million in a full year. The remaining £15 million can be released from the Grant to the Social Security Fund to invest elsewhere in the priorities set out in the Government Plan 2020–2023.

Financial and manpower implications

As a significant employer of a number of highly-paid professionals whose salaries take them over the SEL of £53,000 per year, there will be a cost to the States as an employer paying 6.5% in place of 2% currently. That cost is not known at this time. There is no staffing cost.