STATES OF JERSEY

PROPOSED BUDGET (GOVERNMENT PLAN) 2025-2028 (P.51/2024): AMENDMENT (P.51/2024 AMD.) – COMMENTS

Presented to the States on 22nd November 2024
by the Council of Ministers

STATES GREFFE

COMMENTS

Members are asked to reject the amendment, which if adopted would significantly increase Government expenditure from the Consolidated Fund by £10 million in both 2025 and 2026, leading to worsening operating deficits in those years, and a negative balance on the Consolidated Fund (an overdraft in the operating account of Government) from 2026.

The amendment from Deputy Bailhache seeks to set the States grant at £10 million higher than proposed without identifying a funding source to meet this extra cost. If adopted this would result in a £10 million increase to Government expenditure in each of 2025 and 2026 and would lead to an operating deficit totalling £10.6 million across the 4 years of the Budget, meaning the Government will be spending more than its income receipts.

£'000	**2025 Estimate**	**2026 Estimate**	**2027 Estimate**	**2028 Estimate**	**Total**
Operating Balance - proposed	-18,432	-826	10,420	18,206	9,368
Amd 1 - Impact	-10,000	-10,000	-	-	-20,000
Operating Balance - amended	**-28,432**	**-10,826**	**10,420**	**18,206**	**-10,632**

Most importantly, the amendment if adopted would lead to a negative balance in the Consolidated Fund from 2026 onwards, with the Fund overdrawn by £19 million by 2028.

£'000	**2025 Estimate**	**2026 Estimate**	**2027 Estimate**	**2028 Estimate**
Consolidated Fund Balance - proposed	23,456	4,220	1,188	1,356
Amd 1- Impact	-10,000	-20,000	-	-
Consolidated Fund Balance - amended	**13,456**	**-15,780**	**-18,812**	**-18,644**

Under the Public Finances Law, the Council of Ministers would not be permitted to lodge a plan in such a position – this is designed to protect the long-term sustainability of public finances. Ministers therefore cannot support an amendment that ignores this principle – increasing expenditure without identifying compensating reductions in spend or increases in income resulting in a plan that overdraws the Consolidated Fund.

If this amendment is successful, Government will be forced to take action to address the funding gap and would need to consider options, including reducing or stopping the business support package and/or reconsidering the living wage.

A key policy objective of this Government, approved by the States Assembly, is the commitment in our Common Strategic Policy to transition towards a living wage for Islanders, with a commitment to implement the States Assembly decision to bring the minimum wage to two-thirds of the median wage by the end of this term of office. The Common Strategic Policy outlined that to achieve this priority we will provide a range of support to employers and employees during the transition, with the Budget 2025 – 2028 setting aside £10 million in both 2025 and 2026 to fund a package of measures.

The Common Strategic Policy also sets out principles that have provided the foundations of the Budget, including our intention to curb the growth in the public sector and to reprioritise budgets where appropriate to deliver our objectives.

More recently, Members approved a change to the Employment Law (P.36/2024) to allow the Minister for Social Security to set the minimum wage for 2025 and 2026 by Order. The Minister has confirmed that the 2025 minimum wage will be set at £13 per hour from 1 April 2025.

During the development of the Budget, Ministers considered the most appropriate funding source to provide a package of temporary measures to employers through the transition to help ensure a smooth transition towards a living wage.

The States grant paid from general taxation into the Social Security Fund was identified as an appropriate source of temporary funding for the following reasons;

- The combined value of the Social Security Fund and Social Security (Reserve) Fund is estimated to be in the region of £2.5 billion in 2025, with the Social Security (Reserve) Fund generating expected annual investment returns of £100 million plus.

- The conclusion of the latest actuarial report[1] on the Social Security Fund, has found the Fund to be in good health, with the ability to pay benefits out for several decades under a range of scenarios considered.

- Even after adjustment, the value of the States grant paid into the Social Security Fund will still be increasing from £78 million in 2024, to £80 million in 2025. Government is not withdrawing any money from the Social Security Fund.

- The Deputy's report refers to the Social Security Fund as an asset for the benefit of the people of Jersey. The temporary package of measures for 2025 and 2026 is designed to protect those assets in the long term through supporting the development of a higher wage economy.

- Moving to a higher wage economy is fully in line with the aims of the Social Security Scheme to protect workers. Investing in skills and productivity schemes will be of benefit to many workers and ensure that they can continue to enjoy secure and rewarding employment. This in turn will help support the long-term future sustainability of the Social Security Fund.

- The latest Fiscal Policy Panel (FPP) report identifies a possible risk to inflation if the increase in minimum wage is not accompanied by improvements in productivity. As such it is vital that this package is provided to drive those productivity increases.

- The FPP also states that further fiscal pressures from increases in expenditure or reducing revenues would be strongly advised against and therefore moving

[1] Report by the Government Actuary on the Jersey Social Security Fund r.96-2023.pdf (gov.je)

this expenditure to regular budgets or the strategic reserve would not be recommended.

- The package is also fully in line with the Future Economy Programme which aims to create the conditions for Jersey to be a consistently high performing, environmentally sustainable and technologically advanced small island economy by 2040 with a labour market that values all workers.

- The increase in the minimum wage from 2022 to 2026 will be c72%, more than double the inflation level over the same period. As such, some form of business support package is fully justifiable to help businesses adjust to such a significant change in business models.

- As can be seen from the Budget report, the annual £10m funding will be maintained in a dedicated head of expenditure with all costs carefully controlled. Any funds remaining in the account at the end of each year will be paid into the Social Security Fund.

Deputy Bailhache's report suggests that "nothing has changed" since he lodged a similar amendment last year. This government's proposal is however completely different to that put forward last year. The money withheld from the States Grant will be allocated to a dedicated head of expenditure to be used for a specific purpose which is fully aligned to the long term aims of the Fund itself and any moneys not needed for the support package will be paid into the Fund after the end of the financial year.

The proposed Budget ensures that the support package is fully funded through an adjustment to the legal value of the States grant. If the Budget is agreed as proposed, then Members will be asked to approve a change to the Social Security Law (P.62/2024) to provide for the value of the grant to be set in 2025 and 2026 as proposed. The law change will then set the formal, legal value of the Grant at that new level for those two years only.