

STATES OF JERSEY



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

**Lodged au Greffe on 22nd September 2015
by Deputy S.Y. Mézec of St. Helier**

STATES GREFFE

MEDIUM TERM FINANCIAL PLAN 2016 – 2019 (P.72/2015):
EIGHTH 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 than £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	
	£1,200,000	£1,900,000	£2,600,000	Retain Single Parent component ”.

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	
£500,000	£1,200,000	£1,900,000	£2,600,000	Retain Single Parent component ”.

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	
£500,000	Retain Single Parent component ”.

DEPUTY S.Y. MÉZEC OF ST. HELIER

REPORT

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. Their mantra is 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

Row Labels	Single	Married Couples/ Civil Partnerships as individuals		Grand total
		Self/1st Partner	Wife/2nd Partner	
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

The first issue to examine when considering this or any other measure proposed by the Minister to reduce support is the degree to which the impact of the change has been subject to proper research and consultation. The answer to these questions, as can be found in the passage below in the transcript of a quarterly Scrutiny meeting with the Minister on 3rd September 2015, is that neither has taken place.

“The Deputy of St. Ouen:

I think we will just move on to the next change in order to try and cover everything. The single parent component is being removed. What was the reason for introducing a single parent component in the first place?

The Minister for Social Security:

That goes back to Parish Welfare.

Deputy G.P. Southern:

Was it not the case that the numbers in the income distribution surveys revealed that there was a significant amount of child poverty around the time, prior to 2008, and it was decided to address that, because that was concentrated in single parent family households and that the £40 a week extra going to single parents was to address that child poverty issue? I think that was the case, was it not?

Policy & Strategy Director:

I do not think it was as targeted as that at the time, quite honestly. I think there was a very strong desire at the time to make sure that the transition from the Parish Welfare system to Income Support was as smooth as possible, and therefore several aspects of the Parish Welfare system were transferred into the Income Support. If you recall, a lone parent with one child was given the

married rate and then they got the parent allowance on top, so you have to kind of remember how much everything costs, but the impact of that was that lone parents did get an extra allowance through the Parish Welfare system in that way. Now, Income Support is different, and whereas it made sense to make that smooth transition from Parish Welfare into Income Support, now with the benefit of experience and understanding how Income Support works as a whole, because it is now a single system and it does work in a different way to the individual systems had all worked beforehand, it is right, as the Minister said, to review the way that things work and to try and remove some of the inconsistencies perhaps that were established for good reason at the time, but are hard to justify going forward.

Deputy G.P. Southern:

Does the Minister accept that there is a risk that child poverty after this single parent element has been withdrawn that child poverty will go up?#

The Minister for Social Security:

No, I do not accept that.

Deputy G.P. Southern:

Do you have any research on which to base that?

The Minister for Social Security:

What we have done is compare a lone parent situation with one child, say, for example, with a couple with one child, each on an Income Support situation. Both will have 2-bedroom accommodation, which will be paid for if they are on Income Support; both will have the same household component of £51 a week, which is for household bills; both will have the child component, the £64 a week, and both will have the adult component. We did not understand why there would be any necessity with all that being paid for ... I think, yes, the difference, a single parent would be on £470 a week paid for and a couple on £522 a week. We do not feel that has any way got anything to do with an implication of child poverty.

Deputy G.P. Southern:

Is your feeling in any way based upon research you have done to suggest that child poverty will not be increased by the measures you propose?

The Minister for Social Security:

Every single change we have made has been done on the most enormous amount of research and calculations. We do not pull things out of the air.

Deputy G.P. Southern:

Can you show this committee this research, please, at any stage?

The Minister for Social Security:

It is done largely on calculations on the computer, is it not?

Deputy G.P. Southern:

If I may, to what extent have such considerations as relative low income thresholds been used in examining your proposals?

The Minister for Social Security:

As I have just said, every single aspect of this has been examined in comparison to make sure that we were not deliberately undermining a single parent in comparison with a couple.

Deputy G.P. Southern:

Will the Minister bring that research to the House – or to this panel in particular - before we debate the M.T.F.P. on 6th October?

Policy & Strategy Director:

Jersey, at the end of the day, is a very small jurisdiction and the level of understanding of poverty, which is a very difficult thing to get your head around, is difficult because of the amount of survey work you can do that you can justify paying for. The Statistics Unit are now doing a 5-year cycle of household income and spending surveys. One was done in 2009/10, which showed that bringing in Income Support had improved the position of lone parents compared to the previous survey, and the current survey is currently being finalised now. Fieldwork, it is quite a complicated thing to do, you have to go around people's houses and you have to look at all their income and all their expenditure over a period of time, so it is very labour-intensive, it takes quite a lot of time and effort to achieve. As of now, we afford to do this work every 5 years.

[13:45]

The results will be published towards the end of this year. Those will be results based on work that was undertaken between May last year and May this year, so they will not reflect these changes, you have to understand that. They will set you things like international relative poverty lines, where you look at the median household income, then you take a proportion of that and you say: "I will set our relative poverty level at that figure." Governments like figures, so it is a number. A person who has got an income below that level may or may not feel poor; a person with income above that level may be in financial difficulties.

Deputy G.P. Southern:

Can I bring you to the point of focus, please? Can you bring evidence for this particular change that you are making to lone parents' income to the House, or to us in the first place, and to the House before the 6th October debate of this M.T.F.P., because this is an element of the M.T.F.P. and we would like to understand that you had researched this issue and that what you are doing was not likely to increase child poverty. Is that yes or no? Can you bring me the research or bring us the research?

Policy & Strategy Director:

There is no ... we have not done any fieldwork because, as I said, it is a very expensive thing to do. As I say, the Statistics Unit are doing it now, and because of the time it was, it will not reflect these changes.

Deputy G.P. Southern:

When your Minister says: "We have done the research" are you saying we have not done the research?

The Minister for Social Security:

Yes, we have done the numbers, but that is ...

Policy & Strategy Director:

We have done a very detailed analysis of Income Support claimants now, but there is a point ...

Deputy G.P. Southern:

In relation to either relative low income lines or to child poverty as a whole, to the risk of child poverty as a whole, have you done that exercise?

The Minister for Social Security:

I find the definition of child poverty impossible to define. We do not have child poverty.

Deputy G.P. Southern:

Sorry, I used the wrong ...

The Deputy of St. Ouen:

I suppose one could have taken the international standards that Mrs. Duhamel has just referred to and said: "Are we at risk of bringing lone parent families below those international standards by removing this component?" Has that been done?

The Minister for Social Security:

I am not quite sure whether it would be any more likely to have an impact on the child than a couple, why a single parent would be any different from a couple.

Deputy G.P. Southern:

You have evidence to back that opinion up?

The Minister for Social Security:

As I said, we have done the figures, but it is across the board, it is one balanced against the other. As you well know, with something as big as this, it is a package, you cannot just pick out ... and the figures are all done by computer. I am not quite sure what evidence you would want."

Despite several attempts on the part of the Minister to suggest that this measure has been thoroughly researched, it has not. When the Income Distribution Survey (IDS) is published later this year, the data will not include this measure. There is, however, previous research from the IDS 2002 and 2009/10 which shed some light on the subject. The change in the condition of single parent households under the old parish welfare system and under Income Support is clear.

Table 6 – Percentage of Households by Household Structure

	<i>Number of households</i>	<i>Bottom quintile</i>	<i>Second quintile</i>	<i>Third quintile</i>	<i>Fourth quintile</i>	<i>Top quintile</i>
<i>After Housing Costs</i>						
Person living alone (pensioner)	4,115	36	30	15	11	8
Two or more pensioners	2,811	30	26	17	16	11
Single parent with at least one child <16	1,374	45	30	13	6	6
Single parent with all children >15	1,043	34	7	20	24	16
Couple one pensioner	1,056	16	17	28	15	25
Couple with at least one child <16	7,011	23	23	19	19	16
Couple with all children >15	2,607	6	31	13	27	22
Person living alone (not pensioner)	5,713	16	13	27	24	21
Couple not pensioners	6,438	8	10	23	24	34
All households	35,562	20	20	21	20	20

In 2002 almost half of single parent households with dependent children were in the bottom income quintile, and a staggering 3 in 4 households were in the bottom two quintiles.

Table 14 – Relative Low Income Households by Household Structure

	<i>After housing costs</i>	
	<i>Number</i>	<i>% of total</i>
Two or more pensioners	1,020	36
Single parent with at least one child <16	880	64
Person living alone (pensioner)	1,870	45
Single parent with all children > 15	380	37

This pattern is repeated using the definition of relative low income (60% of median income). Two-thirds of single parents (and their children) fall below the threshold.

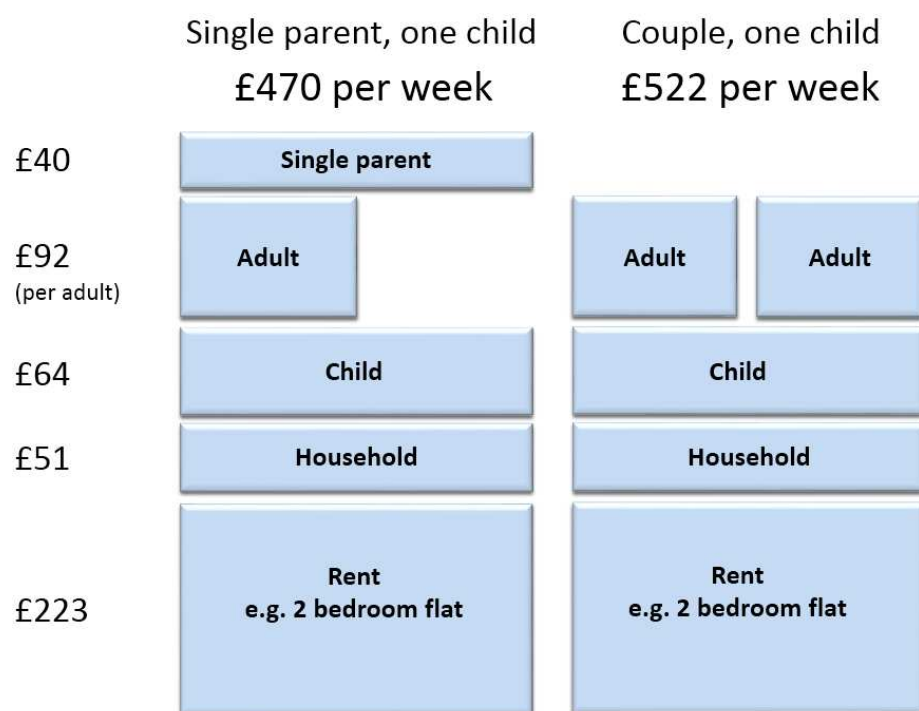
Turning to the 2009/10 data we find the following –

Table 12 – Percent of households in “Relative Low Income” in Jersey, before (BHC) and after (HAC) housing costs, by household type

	<i>BHC</i>	<i>AHC</i>
Single parent at least one dependent child*	20	51
Person living alone (pensioner)	41	46
Person living alone (non-pensioner)	11	25
Single parent with all children over 15yrs	10	10
Couple (both pensioners)	27	23
Couple at least one dependent child	7	15

While pensioners and single parents still predominate those falling below the relative low income threshold after housing costs, the position has been ameliorated somewhat for single parent families. I believe that this was due to the addition of the single parent component in Income Support which was introduced in 2008.

As can be seen on page 17 of the report issued by the Minister, even with the additional component of £40 per week, single parents are being asked to bring up a child on a level of benefit that is £52 less than that available to a couple. The Minister’s proposal would increase this differential to £92.



The relative difficulty of finding work that fits around child-rearing duties for a single parent is further reflected in figures produced by the Social Security Department, which show that couples with children have “average other income” of more than twice that of single parents, at £402 to £193. Despite these difficulties, it is interesting to note that over half of single adults with children are in employment.

4.4.1 Increase the disregard in respect of maintenance income from 10% up to 23%

The proposal that single parents should be able to mitigate the impact of loss of the single parent component by seeking maintenance from their ex-partner ignores the difficulty of the task. Single parents are already required to seek maintenance payments from the absent partner. The income received is subject to a disregard, currently set at 10%. For each £1 of maintenance income, a single parent claiming Income Support is 10p better off after the amount of benefit they receive is reduced after taking into account this extra income.

Just under half (46%) of the single parents who claim Income Support receive maintenance income, averaging some £45 to £55 weekly. This measure will mean that the single parent will keep a higher proportion of the maintenance payment that they receive.

However, if one takes, say, a figure of £50 per week this will result in an extra £6 for the single parent. When considering whether it is worthwhile to pursue maintenance, the applicant will see that the sum of £11.50 will be wiped out by the pound-for-pound withdrawal of benefit of £38.50.

To suggest as the report does that “*encouraging the take-up of maintenance agreements reduces the overall cost of benefit to the taxpayer, increases the income to the single parent, and promotes their financial independence*” is false. The taxpayer will be better off. The Income Support calculation will see the applicant even worse off. There is simply no incentive in the system to chase maintenance at these low disregards.

The difficulty for a single parent in chasing maintenance cannot be dismissed. To start with, you have to establish that the ex-partner is still on the Island; and if so, whether they are in work and where they work. An ex-partner who wishes to be unco-operative can make even these simple steps as difficult as possible. At some stage, the applicant may have to go to court, with no legal aid available. The better way to approach this would be for the Department to seek a maintenance order. Departmental officers already know where people work and what their earnings are. They also are able to seek an arrest of wages if needed. The cost of this officer time might be covered by the savings produced.

Financial and manpower implications

This amendment is designed to be financially neutral, with 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.