

STATES OF JERSEY

Corporate Services Scrutiny Panel - Fiscal Strategy Review

MONDAY, 25th OCTOBER 2010

Panel:

Deputy C.H. Egré of St. Peter (Chairman)

Deputy T.A. Vallois of St. Saviour

Senator F.D.H. Le Gresley

Witnesses:

The Minister for Social Security

Chief Officer

In Attendance:

Mr. S. Le Quesne (Scrutiny Officer)

[09:58]

Deputy C.H. Egré of St. Peter (Chairman):

Just for the record, as ever, if we just go around the table, starting with the Minister, introducing yourself for a microphone check.

The Minister for Social Security:

Okay, I am Ian Gorst, I am Minister for Social Security.

Chief Officer:

Richard Bell, Chief Officer.

Senator F.D.H. Le Gresley:

Francis Le Gresley, Senator.

The Deputy of St. Peter:

Collin Egré, Chair.

Deputy T.A. Vallois of St. Saviour:

Tracey Vallois, Deputy of St. Saviour.

Mr. S. Le Quesne:

Sam Le Quesne, Scrutiny Officer.

The Deputy of St. Peter:

All right, you will have in front of you a bit of paper which I am sure you have read and digested on many occasions. The same rules apply. Welcome to the Corporate hearing and we will leap into a rather strange question which we were talking about ourselves earlier. What are your interpretations of what we term as direct taxation or indirect taxation? It is a serious question, I am just double checking that we are all on the same ...

The Minister for Social Security:

Yes. Well, direct taxation, I suppose you would traditionally think of income tax falling under that. Indirect taxation you are talking about things like G.S.T. (Goods and Services Tax) where you can avoid ...

The Deputy of St. Peter:

Control it.

[10:00]

The Minister for Social Security:

You can to some extent, although that is a moot point again, control how much you are taxed whereas if it is income tax it is a set rate. You cannot necessarily control it other than of course if you are operating in an international arena with multi-jurisdictional tax levels, where you could look at how you managed your affairs in that respect. You could even say that on an international level some taxes that you might think nationally are direct could be considered indirect.

The Deputy of St. Peter:

So as you rightly pointed out the income tax is one element of what we consider I think is direct taxation?

The Minister for Social Security:

We would traditionally call direct.

The Deputy of St. Peter:

Yes, and Social Security would be another because there is ... it is a payroll tax in effect.

The Minister for Social Security:

Well, I do not like to use the term tax when we are talking about Social Security, but if you are wanting to take a very broad view of it then you could use that term.

The Deputy of St. Peter:

It would fit into the direct as opposed to the indirect, as in defined?

The Minister for Social Security:

Well again, yes and no. Because currently it is only on earned income so therefore you could structure your affairs to ensure that your income was unearned rather than earned. Although it is quite helpful in one respect to have these overall terms there are ways at the edges that you can move between one and the other. Having said that if we have changes to Social Security as we have just seen proposed in the budget and we know there has been talk about supplementation for a number of years, as soon as we start to move away from this one-third, one-third, one-third and the almost social contract that we have got with the community then it starts to look much more like a direct tax than an insurance.

Male Speaker:

Did you start before 10.00 a.m.?

The Deputy of St. Peter:

Well, it is 10.01 a.m.

Male Speaker:

Yes, but I have been sitting out there for 5 minutes.

The Deputy of St. Peter:

I find that difficult to believe, Mike, because I was out there at 9.57 a.m.

Male Speaker:

I can assure you I have been sitting there.

The Deputy of St. Peter:

My apologies. We have not gone any further than just doing the round of who is who and the one question I have asked so far has been what are the views of the Minister for Social Security on the difference between direct and indirect taxation. That is all we have covered to date.

Male Speaker:

I will just note my complaint and it happens ... there is no notice outside to say it is open and nobody comes out to see you. I do not want to interrupt your meeting.

The Deputy of St. Peter:

All right. Gentlemen, if we continue. What is the current division in funding contributions between Health and Social Services and Social Security in terms of long-term care?

The Minister for Social Security:

Now we are moving of course into different areas. I think it is about £14 million and £16 million. I was going to say we are about £16 million and Health is £14 million but it could be the other way around.

Chief Officer:

We are £18 million.

The Deputy of St. Peter:

Sorry, is that £18 million and £14 million, are we saying?

The Minister for Social Security:

Yes, I think that is what Health are but we can double-check what the latest figures were. When we produced the *Green Paper* earlier this year it was £14 million and £16 million but as Richard says that would have been based on the 2009 figure. That is just for long-term care, residential care.

The Deputy of St. Peter:

Yes. Your department business plan outlines an objective of putting in place a benefit fraud team by December of this year. How far have you got with that?

Chief Officer:

The individuals are now recruited, so they will be starting work shortly and they have a strategy in place.

The Deputy of St. Peter:

What idea, if any, do you have as to how much fraud you suspect is out there?

Chief Officer:

Sorry, are we talking benefit or are we talking taxation now?

The Deputy of St. Peter:

Benefit fraud.

Chief Officer:

We do not have an estimate of benefit fraud. I tend to take the stance that employing people to try and calculate that may not be the best use of taxpayers' money. We have a different basis to the U.K. (United Kingdom). You will have read in the paper a lot being made about the fact that you have benefits administered by many bodies. We do not have that in Jersey. Everything is under the one roof which to a large extent eliminates a great deal of the fraud that you would see in the U.K. but we do not have a figure for it.

The Deputy of St. Peter:

But do you have any idea? I am not asking you a figure, but an idea of what might be out there. Obviously if you have now brought in a group of people to assess and deal with benefit fraud you must have some idea as to why you should do that on a purely cost benefit basis.

Chief Officer:

Yes, we ran some work last year through our current system and did some testing and took a certain number of claims, after having risk-assessed them, so looking for those claims that are most likely or have the potential for fraud, and we used those figures to come up with the estimate of what we may be able to find in a year. That was of the order of probably about up to £500,000, so we take the staff cost and add it on to about £250,000 and that is what we will go with. Now the only way we will properly

find out whether that is the figure is to go through the exercise of that team being in place. From thereon in we will have a more accurate assessment of how much we might be expected to find in a year.

The Minister for Social Security:

We do have some numbers. Like we have said, we projected our recruitment of the extra people on what we thought it was going to be. We also had the history of the previous year but we do not have those figures with us because I thought we were talking about fiscal strategy, but I know we have discussed fraud before with Corporate Services under a different heading, I think, but we can always get that for you and I have answered those questions in written questions as well. So we can add those 2 together and get an indication of roughly what it is. I am not going to say off the top of my head because it is better to give you the more accurate figure.

Senator F.D.H. Le Gresley:

I think the reason for the question was that we were wondering how much leakage there is. Obviously you are needing more income but how much is leaking out through overpayments for example?

The Minister for Social Security:

Well, just a minute. We are jumping from Income Support, which is the tax-funded benefit, which is what we are talking about here. We have teams that look at Social Security as well, but this is not that number but again, off the top of my head, I do not have the numbers of people involved on the Social Security side because I think that is what you are asking about.

Chief Officer:

I can understand what the question is in respect of if we can eliminate fraud on all sides then you do not need to increase taxes by as big a number.

The Deputy of St. Peter:

There is that dimension which is very important, yes.

Chief Officer:

The rules are more, how would I describe it, concrete within the Social Security scheme in that they are based upon contributory entitlement. Pension is not. It is a difficult benefit to commit fraud against because you are entitled to a pension. There could be some identity fraud issues but that is a separate matter. The other benefits are based around Maternity Allowance, Sickness Benefit. From the other side you have Income Support, so the risks there relate to cohabitation, not declaring that, and the risks across the board in terms of Social Security Fund and Income Support will be non-declaration of earnings or income.

The Deputy of St. Peter:

Strategically your commitment to pensions, as you say, is difficult from a fraud perspective, but what proportion of your Social Security economy, if you like, is set aside on benefits, not pensions? So how much are you paying out in benefits across the board?

The Minister for Social Security:

All benefits or just the sick benefits?

The Deputy of St. Peter:

The group of benefits you just said where fraud could be more easily applied than pensions. In other words the benefits you mentioned, Sickness Benefit, Maternity Benefit, Child Benefit and other allowances.

Chief Officer:

So 2009 total pensions and survivors' benefits £132 million and total incapacity benefits £25 million, total allowances £3 million. So by allowances I mean Maternity Allowance, Maternity Grant and Death Grant. Of the £25 million, between £13 million of that is short-term Incapacity Allowance and the remainder is long-term Incapacity Allowance or Invalid's Benefit.

The Deputy of St. Peter:

So those are the areas you would investigate?

Chief Officer:

Well, if you are ill you will eventually be boarded, be subject to a medical examination, so professionals will say how ill you are.

The Deputy of St. Peter:

When you started working on the F.S.R. (Fiscal Strategy Review) process how far back did you go? Did you start with a fresh board, when I say a fresh board, a fresh piece of paper and say: "Right, how are we going to cope with this review?"

The Minister for Social Security:

In some ways it comes back to your opening question about direct and indirect taxation. We were asked to take part in the F.S.R. which is a Treasury-led review because of the collection mechanisms that we have got in place and because other or most other jurisdictions regard Social Security more as a direct tax. It is not like ours where we are part-funded part pay-as-you-go, most other jurisdictions are just pay-as-you-go and therefore what the government collects in tax and national insurance it is paying out, so it is always interplay, whereas historically we have not been in Jersey, because of this part-funded nature. Individuals know that when they are putting money in some of it is going for future pensions, some of it is going for today's expenditure, and therefore it has always had that element of we have stepped back from that, we do not need to call upon that mechanism. At the same time as that has been the case there has been the constant argument about whether the taxpayer should fund any part of pensions, i.e. via supplementation, and that has been a commitment to look at that, or to at least consider it for a number of years now, and I suppose in a way that is why we get pulled in, because that has to be appropriately considered. In the light of any tax changes is it right to look at what is quite a reasonably large sum of money that the taxpayer is putting into future pensions? So I think on behalf of Treasury they probably did start with a reasonably clean sheet of paper with some caveats in the back of their minds and we got pulled into that clean sheet of paper, as you would expect if you are trying to consider everything, which perhaps has not been done like this in the past.

The Deputy of St. Peter:

Where are your concerns at the moment in respect to your department? You mentioned supplementation. Obviously, that is a deep concern.

The Minister for Social Security:

Personally I am not as concerned perhaps at that supplementation as a lot of other individuals because I see quite clearly taxpayers are making a conscious choice, even though they are probably not aware of it, to supplement the future pensions of low earners in the Island and I think that is a positive contribution. The difficulty comes when we focus on the amount and it seems that not everyone understands exactly what that amount is doing and why it is there, and when you focus on that you start to think: “Oh, it is a big amount, can we not do something about it?” rather than saying: “No, it is a social protection mechanism, it is a big amount of money but it is literally doing that. Every person who has earnings under the ceiling gets supplemented up to the ceiling with that taxpayers’ money and that allows them, if they have got their contribution history in place, to be able to take their full pension at the end of their life. Without it they would not be able to.” So probably at Social Security we see it in the most positive light of anybody that you might ask across the Island. Going back to your question, the role of the Minister you could say is part ...

The Deputy of St. Peter:

But if I could say ...

[10:15]

The Minister for Social Security:

I am coming back to where you think the difficulties are.

The Deputy of St. Peter:

I think the question that I asked was where are your concerns and mentioned supplementation, and you indicated that that was not one of your major concerns. So I am looking at the areas that you are concerned about.

The Minister for Social Security:

That is what I was just getting back to. The role of the Minister, perhaps one wears 2 hats, looking after the department and trying to think corporately on the Council of Ministers and trying to be part of a joined up approach to solving problems. Perhaps if I were just wanting to look at my department and the pressures that I face which we know are contributions for long-term care, we know are contributions in the medium term to make the pension sustainable, and we know also that there will be issues with regard to contributions for the Health Insurance Fund and how we fund the hospital and where that money is coming from. All those 3 pressures look at my department or seem to come knocking on my door and that is right. But at the same time I have got to try and take a view that we have got an Island issue of the deficit and is there some role that Social Security can play in trying to partially help in that arena? I think with the proposals that we have got, so far we have got a balance of that. If the States approve the 2 per cent above the ceiling as proposed by the Minister for Treasury and Resources that will still give me, wearing my Social Security hat, leeway to deal with the pension mid-term issues about making the pension sustainable. So there will still be headroom there in contribution rates, to be able to do that. I believe there will still be headroom in contribution rates to keep moving

ahead with the long-term care scheme and there will still be headroom to deal with the Health Insurance Fund and the hospital. If we just take that one hospital issue or the Health Insurance Fund issue it could be argued that the proposition that I have got for debate next time to transfer money from the Health Insurance Fund to help with the hospital pressures should not happen. It could be argued that, but again I have to come back and ask myself what is better for the Island as a whole when we have got £70 million sitting in a fund which most people think has been collected for health generally? What is better, to use some of that or to increase taxes even further to provide money for the hospital when we have got some money sitting there that we could draw down first? The analogy would be I suppose in a way the way that we have used the Stabilisation Fund. We have used that for the economic downturn. We could have said: “No, we are not going to use that, we are just going to put up taxes” but we did not and that is the sort of approach I am trying to take to the Health Insurance Fund. So although concern might be dependent on how one uses words, it might be too strong a word, there are tensions and you could extend that to use the word: “concern” that I have. That I am getting that right balance and that we at Social Security are getting that right balance while playing our corporate role, at the same time protecting the core benefits, i.e. pensions from the Social Security Fund that is our day-to-day activity.

The Deputy of St. Peter:

I mean you touch on your role there as the Minister for Social Security and also your other role of being part of a corporate team on the Council of Ministers. What conflicts, if any, exist in your mind between your role as Minister for Social Security

and what you are trying to achieve there and that of the overall goal of the Council of Ministers?

The Minister for Social Security:

I am not sure if I would use the word: “conflict” although you might describe what I have just described as conflict. I would prefer to use the words: “balancing tensions” because as I have just said I have got to protect, I believe, the Social Security fund, I have got to protect the value of pensions and benefits coming out of that fund and what is happening in the Health Insurance Fund.

The Deputy of St. Peter:

What are the pressures coming from the other side?

The Minister for Social Security:

Other individuals might look at my department and think: “Well, you have got a big pot of money in the Social Security Reserve Fund, you have got a reasonable pot of money in the Health Insurance Fund” and they have got other pressures that they would like to deal with in their departments. I am robust in saying no. I think that the pension fund that we have got in Jersey is respected. It meets, as far as we can, the desires and aims of the community and one of my responsibilities is to protect that, whoever might look at it and think: “We could do things differently.”

The Deputy of St. Peter:

In the current sort of media hype over the announcement of the forecast budget which is going to come to the States, one of the arguments that is being used from the

Council of Ministers is: "Do not worry, if G.S.T. goes up this manageable 2 per cent the lower paid are going to be protected because they are going to get income support." What pressures did you face on the discussions which obviously have come to this particular area? Was it: "Okay, do not worry, Social Security will sort it"?

The Minister for Social Security:

I think a commitment was given by Treasury that if G.S.T. were to be one of the options to be raised ...

The Deputy of St. Peter:

Bear in mind this is the proposition, Minister.

The Minister for Social Security:

No, no, I am talking about before it was announced on Friday, that those on low income would be protected against the rise in G.S.T. Now one of the things with Income Support is we do now have a mechanism which allows us to pretty clearly direct money to those sectors of society that we might want to. We have seen it used before when we first brought in G.S.T., components were uprated to offset against the cost of G.S.T. We saw it again when there were food exemption debates and the components that would have been affected by that were increased again to offset against it. So we do now have this mechanism that can be used. Of course we currently know that there is an amount of money, I think it is about £2 million, which is being proposed to come to Social Security to do this offsetting. We now have to go away and consider how and which components we will uprate, or what will be uprated, to achieve some of that offsetting.

The Deputy of St. Peter:

One of the concerns that I have judging from what you have just said, and it prompts my next question, is what is the forecast loading on Income Support against this 2 per cent rise in G.S.T.? It is almost doubling it, so what work has been done on forecasts in that extra expenditure. You have just mentioned there is £2 million coming from ...

The Minister for Social Security:

I think that is the rough figure that they have netted off for the purpose of the budget. We will now go ...

The Deputy of St. Peter:

Sorry to interrupt but when you say: "they" you mean the Treasury?

The Minister for Social Security:

The Treasury Department. We will now go away and look at what the effects would be and look at where we might apply that money in Income Support to best effect.

The Deputy of St. Peter:

What are your views on the possibility that perhaps this work should have been done before announcing a possible 2 per cent rise in G.S.T.?

Chief Officer:

Can I just quickly say where the number comes from? It is about £1.5 million as we are dealing in round millions in the budget. We were asked just to run it through the

current model of Income Support which means downloading all the recipients and what components they get and applying 2 per cent to those components that attract G.S.T. and that comes out at £1.5 million. That is not to say that that is exactly how you would allocate that money to best effect.

The Minister for Social Security:

The other bit of money is the G.S.T. bonus, so there is money for that as well which is why you get rounded up.

Senator F.D.H. Le Gresley:

Can I just ask the Minister, as we have just touched on that, why he proposed in the business plan to remove the G.S.T. bonus when it infers to me that you did not know that G.S.T. was going to go up, otherwise why would you have tried to remove the bonus?

The Minister for Social Security:

I made my rationale for wanting to remove the bonus quite clear and I still stand by that rationale. It was not approved by the States, as you know, but I still believe that it was a sound rationale for me to have considered in light of the way we have to administer benefits in our department. We go for those initially which are non-means tested. It is not within Income Support and therefore I think that rationale still stands. The States obviously did not agree with me.

The Deputy of St. Peter:

But the Minister for Treasury and Resources has said in his budget statement that the G.S.T. bonus is there to protect lower income people who are not on income support, so presumably he is giving you a directive that the G.S.T. bonus is here to stay for the time being?

The Minister for Social Security:

Well, I think the States gave the directive that the G.S.T. bonus is here to stay and if it is here to stay then it is proposed to use that mechanism to again cushion the effects of G.S.T. on those above Income Support but below the tax threshold.

Deputy T.A. Vallois:

In terms of the work that has been done on the steering group for the Fiscal Strategy Review you have been together for almost a year now. What you are saying with regards to the G.S.T. that has been looked at, has the income distribution survey been taken into account as well?

The Minister for Social Security:

Well, as the Comptroller just said, what I was trying to say is while the figure of £2 million has come from looking at modelling of existing Income Support, my contention is that I now have to go away and consider where it would be best applied, and that consideration will include consideration of what the income distribution survey told us and where people are feeling the pressure.

The Deputy of St. Peter:

Again, still sticking with this little G.S.T. problem, this 2 per cent increase, with the downturn in the economy what work has been done, if any, on modelling the number of people who are now going to fall into the Income Support area? Because obviously the way things are moving at the moment, that number is going to increase, so what work has been done on that?

The Minister for Social Security:

Sorry, I am not ... what are you saying?

The Deputy of St. Peter:

We have seen an increase in the number of people out of work, we have seen the possibility of reduced income and more expenditure falling on the middle and lower earners. What work has been done?

The Minister for Social Security:

We have done quite a lot of work and the department has always done quite a lot of work on trying to understand and forecast levels of families on Income Support and levels of income for families on Income Support, because they both drive our budget. You will be aware that we are forecasting this year that we will have an underspend in the order of around £5 million.

[10:30]

Because when we started the year, perhaps it is a sign of having 2 accountants at the helm, perhaps you could say we were slightly more cautious than we have seen in

reality. So we started the year expecting something to happen. That has not quite happened, as is always the case with forecasts, and therefore we are looking for this underspend at the end of this year. But again we have not said: “Oh, okay, that has happened now, we are going to expect it to continue to slightly improve.” We have carried on being cautious but on the new curve, if you will. So we have I think, although it is always very difficult to say, built in a cautious approach of what might happen throughout not just the end of this year but next year as well when we start to have these other factors coming into play as well of increased taxation, we will have the first phase of the savings, even though it is only about £11 million that will not be spent in the economy by the State sector. So we have continued to be cautious, albeit not quite as pessimistic as it was when we were at the end of 2009 because of what we have seen happen already during 2010.

Senator F.D.H. Le Gresley:

What happens to the £5 million underspend exactly? Do you keep it? Do you give it back to Treasury?

The Minister for Social Security:

No, it is like making laws. Nobody wants to see how it happens. It should go back to the Treasury. Other Ministers will no doubt have pressures at the end of the year and there are discussions which take place between departments and Treasury about what might happen with an underspend, but I am now trying to remember the Finance Law. I think the Finance Law says that it is within the decision of the Minister for Treasury and Resources. Is that correct?

Chief Officer:

Yes, the expectation is underspend or benefits go back to the centre.

Senator F.D.H. Le Gresley:

So what other concerns, if any, do you have with pressure coming from the Council of Ministers in your direction?

The Minister for Social Security:

I have talked about the Health issue, talked about Social Security; I think that is probably ...

The Deputy of St. Peter:

You can confer.

The Minister for Social Security:

Our main concern is about the Council of Ministers. That is the critical issue.

Senator F.D.H. Le Gresley:

Can I prompt you with one? In your savings proposals you have got 2012 total benefits and Income Support savings £1,260,000 and in 2013 £2,222,000. Would that be a concern, that you can find those savings?

The Minister for Social Security:

Again I do not think the word is concern. I think challenge. I think that it is only right that I, like all departments, look at ways that we can operate more efficiently and

effectively but also to see if there are areas where we can cut spending. I am a great believer that we should control spending and that is why I am pleased when we have got an underspend. I think it is a positive thing. So I would not say it is a concern but it will be a challenge and perhaps some of the political decisions that we will need to make arising out of our reviews and the work that we look at will be a challenge for all of us, to be able to make those decisions.

Senator F.D.H. Le Gresley:

So is there an indication though that you expect the demand for Income Support to reduce slightly by 2013? Is that an intention?

The Minister for Social Security:

I would hope that the work that we will be doing around again encouraging more people to work, from October we will have seen the disregard for earned income arising from work increase, and therefore all these measures that we are putting in place we expect will be helping people to get back into work. I will be coming forward with some changes in legislation as well just to increase the stick element slightly of going back into work. We have got to remember that our system that we have got here now is the very system that Iain Duncan Smith in the Coalition Government is wanting to move towards, so we are ahead of him there, but we need to make sure that the mechanisms within our system are operating effectively and one of those will be ... that is partly the purpose of the review and I would expect that some elements of the review will say: "Okay, we could make savings here. Perhaps there are some areas of disincentive here that we need to address." So I am positive that we can do that, but it will still be a challenge.

The Deputy of St. Peter:

In that challenge of dealing with the disincentive, as you put it, for people going back to work, how are you taking up that challenge?

The Minister for Social Security:

Firstly I have increased the disregard in the 2 years that I have been Minister within Income Support.

The Deputy of St. Peter:

Can you explain what that disregard is?

The Minister for Social Security:

Basically it is the amount of money that you can keep when you move from being on benefit to earning a salary. So rather than you losing £1 in benefit for every £1 that you earn, you lose less in benefit for every £1 that you earn, and that I think is recognised in many research documents that that, coupled with an appropriate stick, is the way that you need to go. If you are up at 100 per cent then people just will not make that move across.

The Deputy of St. Peter:

So what sort of figure are you putting on that carrot element of it?

The Minister for Social Security:

Well, if you are including the offset for Social Security ... well, without the offset for Social Security it is 16.5 pence from 1st October. With the Social Security obviously then that goes down to 22 pence contribution. Whether we need to increase that even more, they are certainly talking about greater disregards in the U.K. but of course disregards cost money. Because for every £1 we are not taking back it is a cost.

The Deputy of St. Peter:

How is that offset by people not being at work and the social element of that?

The Minister for Social Security:

It is, I hope, universally recognised and certainly is by academic research, that work is good for us and the corollary of that is that it is not and the ill effects of that are multitudinal, from family relationships to mental health to physical health, and it feeds all the way down the line.

The Deputy of St. Peter:

Is there a model that incorporates that sort of philosophy in working out what is cost-effective?

The Minister for Social Security:

The cost benefit? Well, I do not know if we have got one, but I am sure there is. There will be somewhere.

Chief Officer:

There are studies that try to calculate the benefits down the line. They will be different in different jurisdictions.

The Deputy of St. Peter:

The difficulty that I have as a States Member and I am sure my colleagues have seen the same problem is that either anecdotally or directly we have had people who have come to us and said: “Look, I have worked over the Christmas period and I have earned nothing because what has happened is that the exact amount of money that I have earned has been taken off the benefit that I was receiving and I want to work.” Now that is a difficult one to answer. What you are telling me is that you are moving in a direction to try and answer that question.

The Minister for Social Security:

Broadly that has not been the case from the start with Income Support. It certainly is not the case now. Not only do we have the income disregard, but for the first month that you move into a job we carry on paying you a benefit at the full rate as well. So you get a little bonus for getting into the work. Now the question we are asking ourselves is should that be extended, that period that you get the extra money or not. It does get difficult for us because anecdotally people say that. We know that is not the case and we try and say to people: “Well, come and see us and we will go over the figures and we will show you that you are better off in work” and we need to keep working as a department to make sure that that message gets out and that we can do all that we can to improve it even more.

Senator F.D.H. Le Gresley:

I would like to go back to the 2 per cent above the ceiling and ask the Minister if you were in favour of this, because obviously the options that were previously mooted were to remove the ceiling altogether, or raise the ceiling, perhaps in stages. Secondly, would it be fair to say that the raising of the Social Security contributions, if you like, the 2 per cent above the limit, was a way of avoiding raising personal taxation? Do you think that is a fair comment?

The Minister for Social Security:

I think that using the Social Security system allowed fairness to be in the budget and I do not want to tread on the Minister for Treasury and Resource's territory, but there was a lot of debate about the effects of changing the income tax rate and it was decided that at the same time you still need to be fair and tax needs to, as far as possible, be seen to be fair as a package that is being brought forward by using this Social Security mechanism that has been created. Now I have had a lot of communication throughout the last 2 years, not least of which during the consultation on long-term care schemes. People have said to me why are we not charging or gathering contributions above the ceiling, and although of course it will affect those who are earning above the ceiling and it will affect employers who have employees who earn above the ceiling, I hope that generally the consensus is that it is the right thing to do. Those under the ceiling, we know that the average salary is several thousand pounds under that ceiling anyway, and it is important that we try to be fair or present a fair package. I think you are right to say that by using the Social Security mechanism the Minister for Treasury and Resources has been unable to do that.

Deputy T.A. Vallois:

By using the Social Security mechanism what does that do to the purpose of Social Security?

The Minister for Social Security:

Well, we use the mechanism and then we say to the Treasury Department, we go back to supplementation and say that the taxpayer does not need to supplement the fund as much as they would have done without it. Now I have been very clear and I was hopefully clear at the presentation and I will continue to be clear that it is changing the Social Security mechanism. We are moving away from what was set up several years ago of one-third, one-third, one-third and rather than higher earners supplementing via the tax system, the Social Security pensions, what we will be saying is that higher earners within the fund are supplementing the lower earners' future pension. So we are creating that fairness, you might say, within the system or that redistribution within the system rather than via the taxpayer.

Deputy T.A. Vallois:

So the current cost of supplementation is?

The Minister for Social Security:

About £67 million.

Deputy T.A. Vallois:

That would reduce by?

The Minister for Social Security:

How long have we got? On the surface of it, it would reduce by the amount that we are contributing, but do not forget supplementation is an individual supplement to every contributor's contribution under the ceiling. So it is not static. It changes each quarter, it changes each year. So although you might reduce the total supplementation bill by the amount we are getting in contributions, the supplementation bill itself might increase because of other factors happening within the economy. So I have to try and be careful that I am just not saying it is going to be 67 less the 16, because it might still be 67 but would have been 16 more.

[10:45]

The Deputy of St. Peter:

There are a few variables in that equation.

The Minister for Social Security:

Yes.

Deputy T.A. Vallois:

On the back of that, with regards to introducing this mechanism under Social Security, does that mean we have more reliance on direct taxation?

The Minister for Social Security:

Well, it comes back to that question of is Social Security strictly a direct tax and in a way you could argue it but you could argue it was, you could argue that it was not, for the very reasons that it does not currently look at unearned income. Although we will

be starting, as the Minister for Treasury and Resources announced the other day, to look to see if there are mechanisms whereby we can look at unearned income as well. Then you could say it becomes much more of a direct taxation. So then you would by nature be saying that you would be increasing it, although the money remains in the fund.

Chief Officer:

The fund becomes more dependent on direct taxation because the supplementation pool which is funded from across all the taxation pools reduces. The States overall does not because it is introducing an increase in G.S.T.

Senator F.D.H. Le Gresley:

Can I ask a question sticking with the supplementation and the ceiling, is there not a need for much closer connection of information between yourselves and the Taxation Department? Not only because you have just mentioned that unearned income would need to be perhaps in the future assessed, but also when you are looking at paying out Income Support, picking up on earnings at a much earlier time than perhaps you are able to do at the moment, through the I.T.I.S. (Income Tax Instalment System) returns, for example. That is my first question and my second one, while I have got the floor ...

The Minister for Social Security:

That was a few questions there.

Senator F.D.H. Le Gresley:

The second one is about the ceiling. I understand it goes up by the Average Earnings Index at the moment, but historically there have been other methods of raising it, not just the Average Earnings Index, and I am wondering whether given that the 2 per cent now kicks in above the ceiling, whether you would be looking at the way of calculating the ceiling in the future, rather than just by the Average Earnings Index. Is that something you are going to consider?

The Minister for Social Security:

Right. I.T.I.S. first. With regard to Income Support it would not necessarily be helpful because we have got to remember that I.T.I.S. for most people is a year in arrears, rather than in real time. So it might not be as helpful for Income Support purposes and perhaps we go back to that it is not a conflict but it is a challenge. If we were able at Social Security to have access to information from the Tax Department then that might help us in several ways and it would certainly help if we are to start looking at unearned income. Probably if we were realistic it would be the most efficient way of us doing that. As I have said before there is a piece of work going on looking at the Income Tax Department and that might propose that we work much more closely together, and it is certainly on our agenda to work closely together and this is one of the issues that we will have to be ... I do not know if it is an American phrase, but bottled out. But we have got to remember that there are strict requirements around the income tax information for perfectly legitimate reasons and if the Comptroller of Income Tax was here before you I think he would be telling you what they were and why it perhaps, although a nice idea, might be more difficult than we imagine. I agree with you, it would be good if we could and it is work that we are looking at. Uprating, yes, in the past I think it was our current Chief Minister who

changed it from uprating at midpoint to uprating at earnings. This ironically is probably the first year where the uprating of earnings on an annual basis has left pensions worse off than had it been midpoint, because we know that R.P.I. (Retail Price Index) was higher than earnings. Had it been midpoint in this one year the uprating would have been greater. But if we look at the last 30 years we know that earnings over time has always been greater and I think for the last 10 years earnings has certainly been greater than midpoint. I cannot remember what your last point was but I just wanted to say that I am today lodging a proposition which will in effect create ... it was about the ceiling, will allow either myself or the future Minister flexibility when it comes to amending the Social Security Law. So currently everything is on the face of the primary law. I am lodging a proposition which will allow the majority of things to be done by regulation which will mean that going forward we can be more flexible and a little bit more proactive, although it will still have to go through proper and appropriate States debate before changes are made which means that we then can consider should there be more than one ceiling. That will be another question which I would ask and we need to consider that. Should there be extra classes of contributors? Probably there should and we need to be able to consider that. Should people on S.T.I.A. (Short Term Incapacity Allowance) be able to work if the doctor says they are fit to do? Probably they should. They cannot currently. All this is on the face of the primary law but we need to be able to react a lot quicker. So the first stage is what I have called a flexibility proposition which might not be with the States Members tomorrow, it is being lodged. That then has to go to Privy Council which will then mean next year I can come forward with regulations to give effect to some of these changes. But in reality I will not have time to do all these changes, I might just be able to do a couple and it will be the next

Minister that is enabled to react a lot more quickly to the desires of the Assembly and the community.

Deputy T.A. Vallois:

Just quickly on the 2 per cent above the cap, it could technically be seen as a payroll tax. So what is the short term effect for increasing the employer 2 per cent above the ceiling?

The Minister for Social Security:

You can call it a payroll tax if you want but you could call Social Security a payroll tax. If you are calling one, you have got to call the other the same thing. I have always preferred not to because of the way that Social Security is looked at, the way that it operates, I prefer to see it as on an insurance basis. But again we have been moving away from that. If we bear in mind that the average salary is about £36,000 now, it is mid-£30,000s and there are some sectors in Jersey that really do not have very many people, if any at all, earning above the ceiling, therefore it is going to have very little or no effect upon them. The majority or a large number of the sectors that do pay salaries above the ceiling, their decision about job creation and where they operate is much more of a multi-jurisdictional decision and what the labour costs are across a number of jurisdictions. Even after the 4 per cent, 2 per cent as it is to you on both sides, we will still be a lower cost jurisdiction when it comes to Social Security or National Insurance than the vast majority of where those operators might be looking when they are deciding about job creation. That is one thing we have got to be very careful of, that we do not want to stop job creation, we want to be

encouraging it. So I think on balance that this is a fair proposal bearing in mind those factors.

Deputy T.A. Vallois:

It has been suggested that employer payroll taxes tend to end up in the form of lower wages in the longer term. Would you think that is correct?

The Minister for Social Security:

Again we are talking about above the ceiling and the lower earning jobs as I have just said tend to be in areas that are not paying up to the ceiling anyway, so these proposals would not affect that even if it were correct.

The Deputy of St. Peter:

When we talked about concerns earlier, you have not mentioned yet in any of your briefs this new role that you took on called Rent Rebate.

The Minister for Social Security:

Yes, it does not exist anymore.

Deputy T.A. Vallois:

The housing component.

The Deputy of St. Peter:

Yes, what are your views on the direction that is going and what are your concerns, if any, that exist in that area?

The Minister for Social Security:

I am well aware of a number of people who have got concerns about the fact that it appears as though we as a State are, it is said, propping up the private rental sector. I do not think, and I have said it before, there is an easy answer to that if you bear in mind that for a number of years the States undeclared policy has been that the private sector would pick up and provide in the rental market where the State sector was not. We have not built any great number of social rented housing. We have had the trusts, of course, but it can be argued that we have wanted the private sector to pick up the slack, as it were, in that market.

The Deputy of St. Peter:

Sorry, can I just interject there? What effect do you think that has had on the rental market itself? Because anecdotally it is said that that pushes the rent up.

The Minister for Social Security:

Well anecdotally it says that that is, but we only pay the rental component up to the fair rent, which is determined by the Housing Department, so we do not have the issue that they are talking about in the U.K. now where you just pay the rent of the property be it in the private or State sector. We only pay up to that fair rent. Do not forget that in itself is a much stricter control over what Housing used to say, where they used to say you could not pay more than 25 per cent of the household income in your rent. So we are already controlling it more than we have ever controlled it before, but equally I am aware that there is still this anecdotal or concern that we should not be providing a housing component to those in the private sector. There is no easy answer to it.

Officers are working with the Housing Department on seeing if anything can be done and what any unintended consequences might be of anything that we might propose.

The Deputy of St. Peter:

Within those discussions concerns equally have been expressed with regard to investment in Jersey, vis-à-vis we have recently been told there are certain developments that have been put together specifically to encourage people to invest in Jersey on the buy-to-let syndrome whereby the individual is getting a return on the capital investment of the property but also getting a return on the rental value. Is that a concern that is shared within your department?

The Minister for Social Security:

First of all you would have to be somebody on Income Support for it to be a concern to us. I do not know what evidence there is to say that the individuals going into such developments are individuals who are on Income Support. Secondly, it would be unlikely that the rental that they are asking is the fair rent level but as I say these are issues that we are working with Housing on and if they say to us that what I have just said to you is not the case then I am sure they will be telling us and that will inform part of our way forward.

The Deputy of St. Peter:

The indication that you are giving me is that at this time that is not a concern?

The Minister for Social Security:

I am not saying it is not a concern, I am just looking at what you said and saying if we take into account those 2 points that I raised it would seem that it might be unlikely that individuals on Income Support and the rents being charged at the fair rent level, it would seem that perhaps that is unlikely, that those Income Support individuals are in those sort of buy-to-let developments. But that might not be the case.

[11:00]

Senator F.D.H. Le Gresley:

I would still like to go back to I think we have touched on fraud or overpayment of Income Support. Do you have a figure that you could give us approximately on overpayments that you have had to write off say last year, and the year-to-date, perhaps?

The Minister for Social Security:

I do not have them with me.

Chief Officer:

Not to hand but they can be provided.

Senator F.D.H. Le Gresley:

Are we talking tens of thousands or hundreds of thousands?

Chief Officer:

In the tens of thousands, not over a single hundred but in tens of thousands.

Senator F.D.H. Le Gresley:

I have got one more. I am interested to understand how the ceiling will work for people who have more than one job. Because as I understand it each employer will be doing their normal Social Security return. They will not be aware that perhaps the joint incomes of an individual could take them over the ceiling. What are you putting into place to monitor that?

Chief Officer:

It sounds at first glance that just raising 2 per cent above the ceiling is a very simple thing to do and therefore why can we not have it for 1st January next year. You have just hit upon one of many issues that we need to resolve before we bring it in properly. All sorts of issues like that, Class 1 and Class 2 earnings, you can only be one or the other, you cannot use both of them. We have got the issue of people who do not have earnings but who have income. How are we going to deal with that without another ceiling? So that is in part, as well as the notice to employers, why we need the time to go through a law that fundamentally is being changed in the way that it approaches lots of different cases and that is just one of many.

Deputy T.A. Vallois:

Can I ask why is it that you chose the 2 per cent over the ceiling? Why was it agreed at 2 per cent? Why not 3 per cent or 4 per cent?

Chief Officer:

It is a political question.

The Minister for Social Security:

Well, it is a political question and perhaps one better directed at the Minister for Treasury and Resources than at me.

Deputy T.A. Vallois:

In terms of obviously you have got your competitiveness et cetera that you have got to look at, I mean the U.K. have a very different, higher rate there without a ceiling, so what made yourselves and particularly yourself as Minister for Social Security, decide upon 2 per cent?

The Minister for Social Security:

If we go back to where I started about my ... we use the word concerns, conflicts, balances we could have said, and there is a position before the States, to basically increase Social Security to get rid of supplementation altogether. I have a problem with that because of the other pressures that I know are coming forward in Social Security and the reason I think that 2 per cent is appropriate is because when you factor in those other considerations it still is an acceptable level to have contributions at, and that was part of the balance. The other side of the balance was filling the amount after savings that was going to be left with the deficit.

Senator F.D.H. Le Gresley:

Just following up on that, Minister, if it were down to 3 per cent for employer and employee we could have left G.S.T. at a 1 per cent increase.

The Minister for Social Security:

You are right, we could have done any number of permutations. I do not want to incur the Minister for Treasury and Resources' wrath but no doubt people, other States Members, will come forward with any number of permutations as amendments to the budget. But while I can support the 2 per cent I have to have consideration of the medium-term pressures on Social Security on protecting the value of the pension and those issues I will fight to defend.

Deputy T.A. Vallois:

Can I just finally ask, yourself as Minister for Social Security plays quite a vital role in the coming out of the recession et cetera with regard to economic growth as well, because you are part of the Skills Executive. What parts of economic growth were considered when looking at the proposals?

The Minister for Social Security:

While I am part of the Skills Executive that is looking at training, trying to get people into work but it is not looking at economic growth. That is very firmly Economic Development.

Deputy T.A. Vallois:

No, but it will affect it.

The Minister for Social Security:

Well hopefully what Skills will do is enable the individuals to be in a position to be able to take up the jobs which are created, but I am not creating those jobs or

encouraging the creation of those jobs. That is not my role. I mean you know all the work that we have been doing at Skills and that we are continuing to do, the analysis of the sectors, what the sectors require, bringing forward courses to provide the skills that those sectors have said that they want, Advance to Work, Advance to Work 2 which I know is not called that anymore, increasing the number of apprenticeships, extra places at Highlands. A little bit of motivational work that has been undertaken by a private sector operator. So there are lots of things that we are doing and we are looking at also changing the way that we work at Workzone as well in connection with careers. So there is lots of work that we are doing to try and make sure that when the economy does start to grow again people are skilled, or even if they are not skilled there will be things in place whereby they can be quickly reskilled to go into those sectors.

The Deputy of St. Peter:

Well, gentlemen, thank you very much indeed for your time. Thanks for your open response and I now declare the meeting closed.

[11:07]