Policy & Resources
Committee

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Dear Sir

Letter of Comment – Committee *for* Employment & Social Security – P.2020/11 Uprating Policy for States Pension

The Policy & Resources Committee notes and accepts that there is a need to review the existing uprating policy for the States pension, particularly in the light of the delay in the introduction of the Secondary Pension Scheme, the period before it is fully implemented and the even longer period before it delivers any significant benefit to future pensioners. Therefore, it agrees that an extension of the current above RPIX uprating policy for the States pension beyond 2025 is necessary.

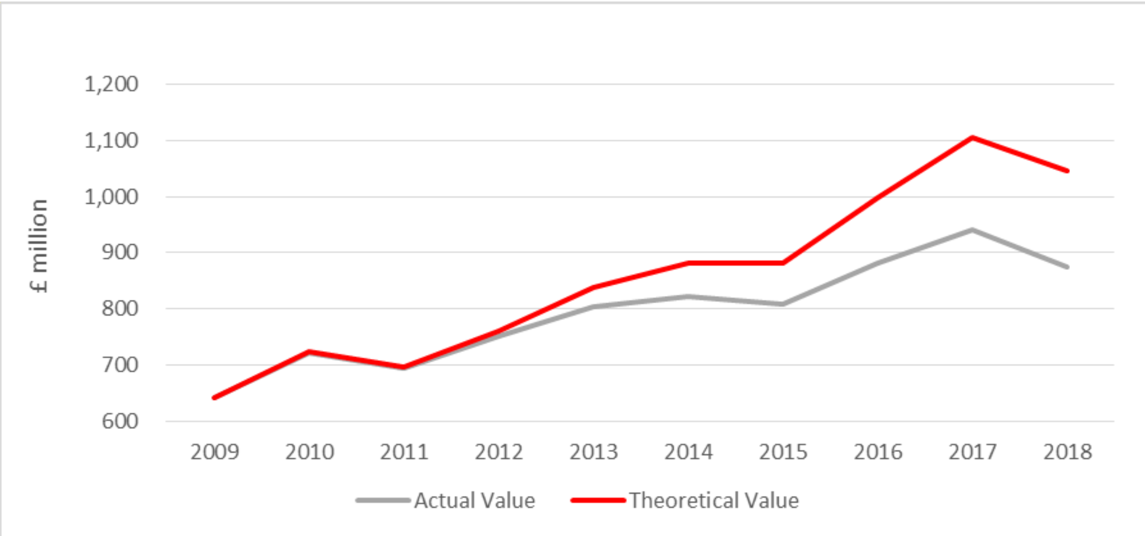
However, the Committee also notes that there are a number of work streams in progress or pending that should provide better and more detailed analysis and evidence to inform consideration of an appropriate long-term policy on contribution rates.

Firstly, a full actuarial review of the Guernsey Insurance Fund, which will review the validity of the assumptions applied to the Fund and, as set out in the policy letter (paragraph 2.3) provide *"the best evidence of the sustainability of the Fund"* is expected to be available in late 2020. It would enable up-to-date analysis of the various policy options for the uprating policy and their consequent effect on the Fund.

Secondly, there is an ongoing work stream to consolidate the investment governance arrangements of the Social Security Funds with the General Revenue long-term investments and a policy letter will shortly be submitted for consideration by the States. This may include options which could improve the investment performance of the Social Security Funds which would impact the long term assumed return and, by implication, reduce the revenue requirements of the Fund.

The Social Security Funds (which totalled £875m at the end of 2018) have, in recent years, achieved lower investment returns compared to the General Revenue long-term investments due to the lower risk investment approach understandably adopted when considering the Social Security Funds in isolation. The additional returns achieved by the General Revenue long-term investments have averaged over 2% per annum over the past five years and nearly 1% per annum over the last ten years.

The following graph demonstrates what value the Social Security Funds would be (£1,045m) had they attained the same level of investment return as the General Revenue investments achieved:



This theoretical effect over the ten year period is substantial and an additional investment return of £170m (£1,045m - £875m) would have increased the sustainability of the Social Security Funds and could have significantly reduced the contribution increases being considered.

The proposed contribution rate would take £6m per annum out of the economy which represents a direct impact on GDP of 0.2% and there would also be indirect impacts. There is no evidence within the policy letter of any identification or analysis of the resulting financial, economic and social implications. For example, in respect of the impact on households, the current structure of the contributions system (and the absence of an allowance in particular) means that the employee contribution rate increase is likely to have a *greater* impact on lower income households than an equivalent increase in the income tax rate.

Thirdly, the resolutions of the *"Review of the Fiscal Policy Framework and Fiscal Pressures"* policy letter (considered by the States in January 2020) include a direction for the Policy & Resources Committee to *"conduct a review to ensure that Guernsey's tax base is capable of raising sufficient revenues to meet long-term government expenditure needs in a sustainable manner within the boundaries of the Fiscal Policy Framework".* The requirement for additional funding for States pensions was included as a developing fiscal pressure within this policy letter. This review will holistically identify the optimum combination of measures in order to raise the necessary amount of revenues from all available sources to provide the agreed level of services across the States as a whole.

Furthermore, the proposed increase in contribution rates will increase General Revenue expenditure by £700,000 per annum from 2021 onwards comprising £600,000 additional employer contributions in respect of the States' role as employer and £100,000 for additional income support benefit payments. This will be a 0.16% increase in General Revenue expenditure and by-passes the prioritisation process meaning that there will be £700,000 less budget available to allocate to Committees for funding cost pressures in the delivery of services.

The Policy & Resources Committee does not understand why the Committee *for* Employment & Social Security is not proposing that all those individuals who will be eligible to receive a States pension pay a share of the additional contribution required. The freezing of contribution rates for self-employed and non-employed persons because, as set out in paragraph 8.4 of the policy letter, *"there has been concern about the impact of contribution rates increases on self-employed and non-employed people…."* does not appear to demonstrate an objective and fair reason to disproportionately increase the contributions required from employees and employers. It may be appropriate for the Committee *for* Employment & Social Security to review whether the contribution rates for all groups are set appropriately in relation to the range of benefits they can access.

Therefore, given that the current policy will maintain the real increase in the pension for a further four years, the Committee is of the view that consideration of this matter should be deferred so that the States can be informed by **all** the relevant analysis and information before they are asked to make a decision. Furthermore, it is considered that seeking approval for increases in contribution rates in advance of the outcome of the review to consider options for best addressing all of the fiscal pressures is sub-optimal, as it is a piecemeal approach to raising revenues which risks a suite of uncoordinated changes for which the overall social and economic consequences are unclear. It is important to avoid a position perceived as 'silo-working' whereby resources are prioritised to one service area or policy development at the expense of others simply because it is the first to be brought forward for consideration by the States.

As Members of the Policy & Resources Committee are collectively of the firm view that any proposals to increase contribution rates are premature, they strongly oppose propositions 3 and 4 and encourage other States' Members to vote against these propositions.

Yours sincerely

Gavin St Pier
President, Policy & Resources Committee