

XXIV 2015

BILLET D'ÉTAT

TUESDAY, 8th DECEMBER, 2015

POLICY COUNCIL
MAINTAINING GUERNSEY'S
WORKING POPULATION

BILLET D'ÉTAT

TO THE MEMBERS OF THE STATES OF THE ISLAND OF GUERNSEY

I hereby give notice pursuant to Rule 1(3) of the Rules of Procedure of the States of Deliberation that the item contained in this Billet d'État which has been submitted for debate will be considered at the Meeting of the States of Deliberation already convened for TUESDAY, the 8th DECEMBER, 2015.

R. J. COLLAS Bailiff and Presiding Officer

The Royal Court House Guernsey

3rd November 2015

POLICY COUNCIL

MAINTAINING GUERNSEY'S WORKING POPULATION

1. Executive Summary

- Debates around Guernsey's Population Policy have tended, in the past, to focus solely on population numbers. However, there are complex interdependent relationships between the size and nature of the Island's population; the health and growth of its economy; Government finances; and the breadth of public service provision the Island is able to sustain in the long-term.
- In view of the Island's size and location, there will always be a need to import key skills and labour in order to grow the economy, stabilise public finances and sustain our quality of life. This has to be balanced against concerns about the impact that population growth might have on the local environment and infrastructure.
- 1.3 The existing Population Objective, agreed in 2007, requires that the States "adopt policies consistent with maintaining Guernsey's population at approximately its current level." However, focusing purely on the size of the total population ignores the implications of the changing composition of that population, which is an increasingly critical consideration.
- 1.4 The fiscal, economic and social repercussions of demographic change are the most significant long-term issues Guernsey faces. In light of this, the Policy Council believes that the objectives of the States' Population Policy must be reassessed and the debate on population levels refocused.
- 1.5 In April 2015 (Billet d'État IV), following consideration of a joint Policy Letter from the Treasury and Resources and the Social Security Departments, the States resolved as follows:

"To direct the Policy Council to review the impact of population policy on the States Strategic Plan Statement of Aims and report back to the States of Deliberation with its findings no later than July 2018."

- 1.6 The Policy Council intends to address this complex issue within the applicable time scale but, in light of other relevant factors, not least the forthcoming introduction of a new Population Management regime, it believes that initial policy guidance is needed before the 2018 reporting deadline.
- 1.7 Consequently, this report looks at the issues from a high-level perspective and recommends that the 2007 Resolution referred to above should be rescinded in favour of a Population Policy that focuses on developing and maintaining a working population that is appropriately sized and skilled to fulfil economic,

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¹ Guernsey's population in March 2007 was 61,175.

social and environmental objectives, rather than solely focused on population numbers per se.

2. Background

- 2.1 In common with most of the developed world, Guernsey's population is ageing. One in five people in the workforce today is over the age of 55 and one in ten is over 60. It is estimated that, in 2015, approximately 170 more people will retire than will leave education to enter the workforce. While the agreed incremental increase in the States' pension age to 70 is likely to partially offset the effects of this, this natural erosion of the working age population is projected to persist until at least 2075.
- This has wide-reaching consequences, as it indicates that, without some sort of intervention, by 2035 Guernsey's workforce could be 13% smaller than it is today, albeit that overall population numbers would be similar to those seen in 2014. Beyond 2035, both the working population and the overall population would begin to shrink.
- 2.3 This would have an impact both on the economy generally and on the delivery of key services to the community. The working population (and, it is acknowledged, a proportion of the non-working population) pay Income Tax and Social Security contributions and these fund Government services, such as health and social care, and benefits, such as Old Age Pensions.
- 2.4 If the working-age population shrinks whilst the number of older people in the community grows, notwithstanding the fact that some of the non-working population pay Income Tax and Social Security contributions, this will mean that there will not be enough people paying into the system in order to pay for the benefits that are being paid out. In addition, it will mean that Income Tax revenues are unlikely to be sufficient to fund the services usually paid for from General Revenue.
- 2.5 Should this situation arise, it will be necessary either to curtail services and/or to increase the rates of Social Security contributions and Income Tax payments, thereby putting a greater financial burden on the working population. This is particularly challenging in the context of the States' Resolution from April 2015² "to amend the Fiscal Framework to place an upper limit on aggregate government income, incorporating General Revenue, Social Security contributions and fees and charges, such that total government income should not exceed 28% of Gross Domestic Product."
- 2.6 In addition, a shrinking labour market will mean that it is likely to prove difficult for all businesses and employers, including the States of Guernsey, to recruit and retain the workforce they need. In respect of the States of Guernsey,

² Billet d'État IV. 2015

a shrinking labour market could well hamper the ability to deliver key services, particularly in health and social care that will be much needed by an ageing population. In the case of the private sector, a shrinking labour market will mean that income-generating opportunities, which result in important contributions to the Island's economy, would almost certainly be lost.

- As will be explained more fully below, it will not be possible to grow the working population sufficiently to address these issues solely by relying on existing residents. Therefore it is inevitable that, as has been the case for many years, some workers will need to be recruited from outside the Island. This will lead to modest population growth in the medium- to long-term but, as stated earlier, if the Island is to remain an attractive place in which to live with a flourishing economy, it is necessary to focus not on overall population numbers but rather on the working population and how to ensure it remains at an optimum size and make-up to support the community.
- 2.8 The Policy Council therefore proposes that strategic Population Policy should move away from a focus on a defined population number or net migration target and instead focus on developing and maintaining Guernsey's workforce at a size and make-up consistent with achieving the States' strategic economic, social and environmental objectives.

3. Why can we not "grow our own"?

- In some quarters there has, in the past, been a resistance to population growth for a number of reasons, one of the most common being a concern that the Island will not be able to sustain such growth and that over-population will lead to it becoming a less desirable place to live.
- 3.2 Undoubtedly there is a balance to be maintained between fostering an economically active, vibrant community and permitting immigration to the extent that the infrastructure is put under undue pressure. However, in considering the various options available, it is helpful first to look at what factors influence population growth.
- Population growth is the rate of change in a specific population, calculated as follows:

Population growth = (births + immigration) - (deaths + emigration) Total population

No government, no matter how strict its immigration policies, will ever be able to exert complete control over the four key factors that contribute to population growth. Guernsey is no exception and, despite the existence of the Housing (Control of Occupation) (Guernsey) Law – soon to be replaced by a new legislative regime governing Population management – the States of Guernsey

have direct control over only about 7% of the population.³ Although the new regime will introduce population management measures with a wider reach than those under the current regime, there will still be a large proportion of the Island's population to whom those management measures will not apply, largely because they are already Qualified Residents.

- 3.5 Whilst absolute control/management is not attainable, government policies can attempt to influence three main factors that can affect population growth, namely:
 - Birth rates
 - Death rates
 - Immigration.

Birth Rates

- 3.6 Guernsey's birth rate is currently 1.6 births per woman. A rate of 2.1 is considered necessary to create a long-term stable population in terms of numbers. Therefore, if it is assumed that the birth rate will remain much the same in the future, we will see a further fall in population numbers as a result.
- 3.7 It would be possible to consider providing financial incentives to encourage people to have larger families but evidence elsewhere suggests that this, of itself, is unlikely to increase the birth rate sufficiently to create the population increase needed. In France, for example, where the social benefit system is one of the most generous in Europe and includes extensive financial support for families, the birth rate is still only 1.9 children per woman.
- The high cost of living in Guernsey, and in particular the cost of housing, means that, even for those who might like to, having a large family is often considered impractical. Whilst changes to the benefits/tax system might bring about a small increase in the birth rate, it is highly unlikely that this, of itself, would result in a sufficient increase to counteract a long-term decline in population numbers.
- In any event, any changes to benefits/taxes themselves would come at a cost, plus, in the absence of family-friendly policies, as referred to in paragraph 5.6 of this report, they might have the effect of further shrinking the working population in the short-term if parents decided not to take up paid employment in order to focus on raising a family.
- 3.10 In addition, increasing the birth rate now would not result in more working-age people until the 2030s at the earliest. Given the proportion of students who remain in education to 18 or beyond, it is unlikely that this would result in any material increase in the available workforce until the 2040s.

³ This figure increases to around 15% if those who are indirectly controlled – e.g. family members of licence holders – are included in the numbers.

Death Rates

Increased life expectancy in Guernsey is currently running at an extra year every five years, as a result of healthier lifestyles and improved health care. This is contributing to increasing numbers of people who have to be supported by the working population. Given the reasons for this trend, there is no reason to suppose that it will not continue.

Immigration

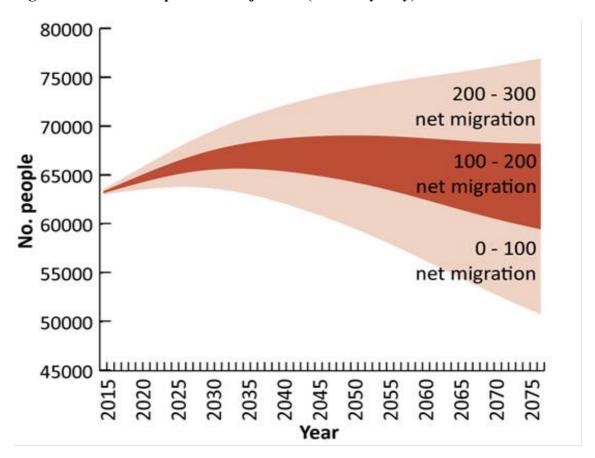
- Immigration is the most volatile factor that affects Guernsey's population numbers. Factors which tend to encourage population growth are generally closely related to the States' Strategic Policy Objectives. This is perhaps not surprising as achieving these should make Guernsey a successful and attractive place to live. For example, one of the Social Policy Plan Objectives is: "Equality of opportunity, social inclusion and social justice". If Guernsey is able to achieve this, it will contribute to the Island being an attractive place to live. It follows that the more successful Guernsey is at achieving all of its Strategic Objectives, the more likely it becomes that people will want to relocate to the Island, thus potentially increasing population numbers.
- 3.13 However, as stated earlier, population numbers, of themselves, are not the most important factor to consider. When looking at population policy, the focus should be on the working-age population and on attracting the right mix of people to the Island in order to grow the economy and sustain economic prosperity.
- Nevertheless, it has to be acknowledged that whatever form migration takes, it tends to increase pressure on housing and land resources. While the majority of migrant workers will make limited use of public services (being typically relatively young and healthy and the majority without school age children), inward migration will increase the total demand for housing and some public services. Furthermore, where immigrants' residency is not limited by housing licence or permit conditions, they may choose to grow old in Guernsey and themselves become subject to health and social care needs. Managing these different pressures will thus be key to maintaining a vibrant, economically active population, whilst ensuring that Guernsey remains an attractive place to live.

4. What if we do nothing?

4.1 There is, of course, a further option to consider which is not to intervene and to allow market forces to determine levels of immigration. This might appear superficially attractive on the basis that population change will find an equilibrium between too much and too little immigration. For example, as the population increases, pressure on the environment increases, as does

- competition for jobs, both of which would tend to act as deterrents to would-be residents and thereby curb population growth.
- 4.2 However, projections have shown that, in the long-term, Guernsey will face significant falls in the size of the population if it fails to achieve net inward migration of at least 200 persons per annum. This is shown in Figure 1 below.

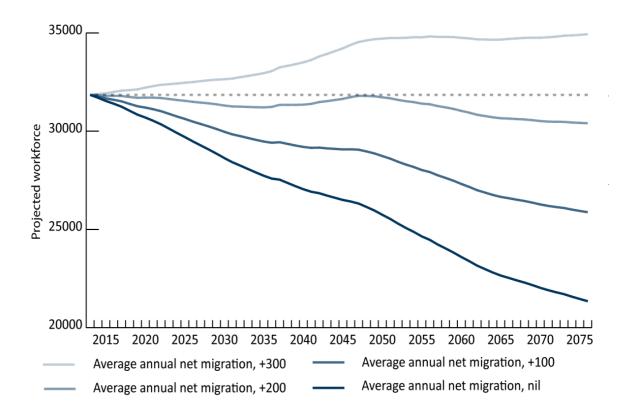
Figure 1: Headline Population Projections (Guernsey only) 2015 – 2075



- 4.3 In the absence of migration, the projected decrease in the working-age population is considerable and even at the average level of migration achieved over the last 5 years (approximately 100 people per annum) the projected reduction in the working age population is significant.
- 4.4 Within the range of immigration scenarios modelled, the range of impact on the projected workforce is huge. No net migration in the long-term could reduce the workforce by 6% in ten years, returning the workforce to the level it was at in the mid-1990s. In 20 years this could see the workforce reduce by 13%, falling to a size approximately equivalent to the workforce in the late 1980s.
- 4.5 A modest amount of net immigration, averaging 100 people per year, which would be consistent with average levels of immigration since 2009, would

result in a lesser, but still significant, reduction in the working age population of 2% over 10 years and 5% over 20 years and, if long-term settlement is permitted for all those migrating to the Island, the long-term demographic issues facing the Island are worsened. The impact of migration levels on the working-age population is shown in Figure 2 below.

Figure 2: Impact of migration levels on the projected workforce 2015-2075



Implications for economic growth

4.6 Any projected reduction in the workforce has an effect on the Island's GDP growth rates. If it is assumed that GDP is directly correlated to the size of the workforce, at an average growth in GDP per worker of 1.5% per annum, projections of average annual GDP growth range from 0.9% to 1.7%, with higher migration scenarios resulting in faster growth rates. This is shown in Figure 3.

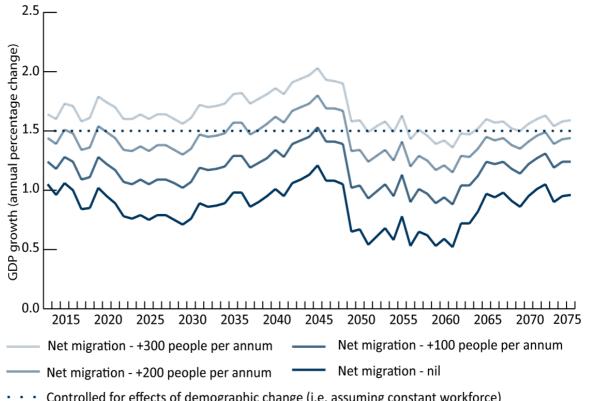


Figure 3: Impact of immigration on projected GDP growth rates 2015-2075

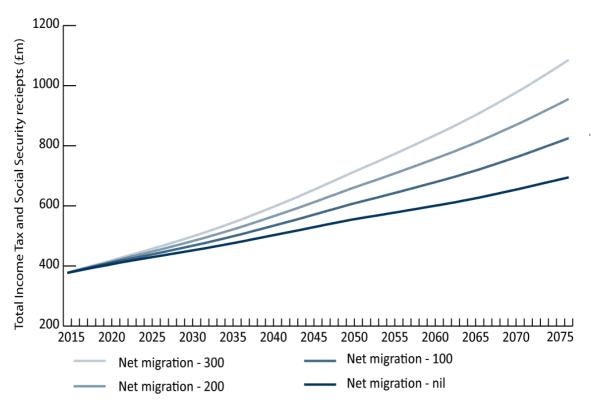
Controlled for effects of demographic change (i.e. assuming constant workforce)

- 4.7 Importantly, with the more modest assumptions of earnings and productivity growth than have been used in the past, none of the above scenarios would allow the States to meet their Strategic Objective to sustain "economic growth averaging more than 2% per annum."
- 4.8 Assuming no other changes, a lack of net migration in the long-term could result in economic decline and a lack of employment opportunities in Guernsey, potentially increasing the numbers of the Island's young people seeking career opportunities elsewhere and exacerbating the shrinkage in the workforce.
- 4.9 Furthermore, in addition to poor economic performance, there will be a risk that there will be insufficient working-age people available to provide key services in both the public and private sectors. For example, health professionals may prove difficult to recruit, which would bring about obvious difficulties. However, if other service areas experience similar issues this may cause other issues and problems, which, whilst less immediately apparent, will be socially undesirable. For example, with an increasingly elderly population, a lack of bus drivers could increase levels of social isolation for those no longer able to use their cars.

Implications for government revenues

- 4.10 Demographic change has an impact on Government revenues, with tax receipts heavily impacted by such issues. Corporate tax revenues are naturally related to levels of economic growth, as has been illustrated recently by the decline in such revenue during 2015.
- 4.11 Personal Income Tax and Social Security contributions vary significantly across the age profile of the population, with those of working age paying more. Tax and Social Security payments from the population fall steeply beyond the age of 55, reflecting the tendency for those in more affluent circumstances to retire early.
- 4.12 As a result, the changing age profile of the population has a marked impact on projected tax revenues. This pattern is particularly pronounced in Guernsey because the tax base is heavily reliant on personal Income Tax and Social Security contributions.
- 4.13 Figure 4 below shows the impact of demographic change on the projected total income arising from Income Tax and Social Security contributions.

Figure 4: Comparison of projected total Income Tax and Social Security contributions depending on levels of net migration



4.14 The consequences of a declining working population are such that doing nothing is not considered a viable option.

5. Other Factors

- 5.1 The significant correlation in Guernsey between economic growth (as measured by GDP) and population growth is not surprising. With birth and death rates in Guernsey fairly stable since the 1970s, net migration is the principal driver of changes in population numbers.
- To achieve the desired level of net migration it follows that appropriate employment opportunities need to be developed. In addition, in order to attract would-be employees, Guernsey needs to ensure it is competitive with other jurisdictions, not only in terms of employment but also in respect of being a desirable place to live, which depends on social and environmental factors as well as economic factors. Consequently, when developing policies designed to ensure that the working-age population is maintained at a level that will support both the economy and the delivery of key services, it is important to ensure that such policies will also foster the socio-economic factors necessary to attract immigrants of working age who will make a net contribution to the Island's economy.
- 5.3 This will mean creating the right climate for businesses to flourish whilst, at the same time, ensuring that the employees critical to the success of those businesses are able to access appropriate housing, health care and recreational facilities, to name but a few.
- This balancing act will be challenging and will require a joined-up approach across government, as well as partnership working with the private sector, to ensure that the working-age population will thrive in order to support those who do not work by reason of age or otherwise.
- 5.5 It is acknowledged that relevant work is already ongoing. For example, the Social Security Department has done a great deal of work in respect of helping people with long-term medical issues or disabilities to enter or return to the work place. However, such work streams need to be given high priority and focus if the Island is to avoid many of the potential negative outcomes of its projected demographic profile.
- Furthermore, employers in both the private and public sectors should be thinking about their own policies and procedures in terms of introducing family-friendly policies and how best to support those individuals who find themselves unable to remain in a physically demanding job until they reach pensionable age. Many of the latter would be willing to remain in employment, subject to receiving appropriate training to prepare them for a change of direction in their working lives.

- 5.7 In addition, it might be timely to revisit the concept of restricting access to services that was raised in the Policy Council's June 2013 Billet (Billet d'État XI, 2013) on Population Management. That report suggested that, possibly, restrictions should be placed on who can and cannot access public services, for example health care and social benefits, based on, for example, the reason for and duration of their residence in the Island. It was concluded that this was a matter for the responsible States departments to determine on the basis of need, rather than because of the type of Permit an individual might hold.
- Notwithstanding this, if the States agree that it is important to maintain the working population at an optimum size, it would be worth considering whether, for example, those who come to the Island solely for the purpose of work on a short-term basis should have restricted access to the benefits system. This would discourage short-term residents from remaining here if they are not economically active.
- Clearly there is a balance to be struck between ensuring the welfare of the population and encouraging full economic participation and it must be stressed that any such policies, in addition to being compliant with our human rights obligations, would have to ensure that they did not cause undue hardship to any sector of the community.

6. Population Policy

- 6.1 The existing States' Population Policy is set out in the States' Strategic Plan (Billet d'État VI, 2013) and is attached as Appendix 1. The Policy refers back to the 2007 Population Objective and links the Housing Department's policies in administering the Housing Control Law to the achievement of that Objective.
- 6.2 It follows that if the 2007 Population Objective is rescinded and not replaced with a different Objective, there will be no point of reference for the Housing Department's own policies. In addition, it will not be possible for the Housing Department to engage section 6(5)(b) of the Housing Control Law in considering applications for housing licences. Section 6(5)(b) allows the Department to take into account "any population objective set out in the most recent Policy Planning Report or Strategic and Corporate Plan".
- 6.3 Similarly, the absence of a Population Objective will create a vacuum within which it will be difficult for the new Committee *for* Home Affairs to introduce the policies necessary to administer the new Population Management Law which is due to be effective some time in 2017.
- 6.4 Consequently, it is necessary to replace the existing Objective with another, although it is acknowledged that such an Objective may only exist in the short-term, depending upon the outcome of the more detailed work referred to in paragraph 1.5.

- 6.5 Given the desire to move away from absolute numbers, it would not be helpful to include any reference to a specific size of population in any new Objective. However, it also needs to be made clear that, to achieve the overall aim of ensuring that the working population is appropriately sized, some population growth is inevitable in the short- to medium-term. Equally, to avoid rendering meaningless the operation of the Housing Control Law (and its successor, the Population Management Law) this approach cannot be interpreted as meaning that immigration will effectively be uncontrolled.
- Unless there are some restrictions, particularly around length of stay permitted, there is a high probability that significant numbers of those who come to the Island to work will remain here past retirement age, thereby swelling the numbers of those not in work. Given the increasing life-expectancy projections described in paragraph 3.11, this will mean a need for an ever-increasing working population in order to support those in retirement, as well as adding more pressure on services such as health and social care.
- 6.7 In light of this, the Policy Council proposes that the following revised Population Objective should be adopted:

"That, as far as practicable, Guernsey's population should, in the longterm, be kept to the lowest level possible to achieve the States' Economic, Social and Environmental objectives."

- 6.8 This will enable some "flexing" of population numbers to ensure that the working population remains at an appropriate size but it makes it clear that, ideally, in the long-term, Guernsey's population should not continue to grow unchecked but rather in a carefully managed way.
- 6.9 The Housing Department's existing policies in respect of housing licences, particularly in respect of limiting the duration of essential employment-related licences, are compatible with the proposed Objective and, as such, the remainder of the Population Policy as set out in the States Strategic Plan does not need amendment at this time. Similarly, when it comes into force, it will be for the Committee *for* Home Affairs to adopt appropriate policies in administering the Population Management Law.

7. Conclusions

7.1 The fiscal, economic and social repercussions of demographic change are the most significant long-term issues Guernsey faces. In light of this the Policy Council believes that existing Population Policy must be reassessed and the debate on population refocused. The States' current policy to "adopt policies consistent with maintaining Guernsey's population at approximately its current [2007] level" is increasingly in conflict with the States' fiscal and economic objectives; namely: to achieve long-term balance; to place a real term freeze on Government spending; and to provide a skilled and flexible labour market. It

- also increases the difficulty of maintaining the limit placed on aggregate States' income of 28% of GDP.
- 7.2 The burden on the working age population to provide and fund an increasing volume of support services necessary to meet the needs of a growing retired population will increase over time. Without working age population growth to maintain and support economic and revenue growth the States will face a choice between reducing the services they provide or increasing taxation, or more likely a combination of the two. Increasing the Island's workforce will not eradicate these issues but will share the cost burden across a bigger working-age population, as well as helping to ensure that necessary resources are in place to support the delivery of key services.
- 7.3 The degree of control the States have over migration and the total size of the population is limited. Economic and labour market conditions are at least as significant a factor as immigration controls. As such, the Policy Council proposes that the States' strategic Population Objective should move away from a focus on a defined population number or net migration target and instead the focus should be on maintaining the Island's workforce at a size and shape consistent with supporting Guernsey business and achieving the States' strategic economic, social and environmental objectives.
- 7.4 In order to create the right conditions to optimise the size and shape of the work force, it will be necessary to co-ordinate a suite of policies that will be applicable to many areas of government. For example, the Committee *for* Education, Sport and Culture has a role to play in equipping school leavers with the skills necessary to participate in the work place. The Committee *for* Economic Development similarly has a responsibility to consider policies designed to facilitate economic growth. There are many other areas where Government and the private sector will need to consider how best to create the right climate to encourage an active work force so that, ultimately, the Committee *for* Home Affairs can take account of such policies in administering the new Population Management regime.
- 7.5 The Policy Council strongly believes that, rather than relying on crude targets on population numbers or migration levels neither of which can be applied in reality this broader policy-based approach will result in improved long-term outcomes for Guernsey.

8. Resource Implications

8.1 There are no resource implications arising from the recommendations in this report.

9. Recommendations

The Policy Council recommends the States to agree:

- 1. That, instead of absolute population numbers or migration levels, States Policies should be focused on ensuring that the Island's working population is of a size and make-up consistent with achieving the States' strategic economic, social and environmental objectives;
- 2. To rescind Resolution I(2) on Billet d'État IV, 2007;
- 3. That a new Population Objective in the following terms should be incorporated into the States Strategic Plan 2013-2017: *That, as far as practicable, Guernsey's population should, in the long-term, be kept to the lowest level possible to achieve the States' Economic, Social and Environmental objectives;*
- 4. To direct all Departments, where appropriate, to take account of this in developing Departmental Policies and business plans;
- 5. To direct all States Departments to consider how best to support and encourage employees to remain in the work place until retirement age is reached.

J P Le Tocq Chief Minister

26th October 2015

A H Langlois Deputy Chief Minister

Y Burford R W Sillars P A Luxon
P L Gillson M G O'Hara D B Jones
S J Ogier K A Stewart G A St Pier

APPENDIX 1

STATES CORPORATE POLICIES – STATEMENT

10.10.1 Population Policy

The States' population objective of "maintaining Guernsey's population at approximately its current level" is drawn from the Population and Migration Policy Statement approved by the States of Deliberation in April 2007 (Billet d'État IV, 2007).

The main population control measures continue to be the Housing Control Law and the Right to Work Law. In support of the States population objective, the Housing Department has stated that, in administering the Housing Control and Right to Work Laws, its policies remain those set out in Appendix 1 to the Report relating to the Government Business Plan 2007 (Billet d'État XVIII, 2007). These policies are reproduced in full below:

- 1. (a) The vast majority of those employed from overseas should continue to be on short-term housing licences (i.e. for periods up to nine months or three years);
 - (b) The issue of short-term licences should be judged on the basis of no suitable local labour being available to undertake the work.
- 2. Wherever possible, essential licences will be limited so that such licence holders do not reside in Guernsey for more than five consecutive years. The Department may issue licences for longer periods of residence where appropriate, for example, where (i) limitation would act to the detriment of achieving Economic, Social and Environmental objectives or (ii) long-term continuity in the post is essential to the community, or (iii) the skills required for the post are scarce on a national or international basis so that recruiting is exceptionally difficult.
- 3. The Housing Department, when considering an application for an employment related licence, will take into account the extent to which the applicant is using new technology and providing training.
- 4. With the exception of licences granted in respect of cohabitation on a one to one basis, the Housing Department will generally only grant licences, on compassionate grounds, to persons who:
 - (a) Are potentially qualified residents as specified in the Law; and
 - (b) Are currently resident in the island; and
 - (c) Have already completed a substantial proportion of the specified qualifying period.

(N.B. As there are no resource implications in this report, the Treasury and Resources Department has no comments to make.)

The States are asked to decide:-

- I.- Whether, after consideration of the Policy Letter dated 26th October, 2015, of the Policy Council, they are of the opinion:-
- 1. That, instead of absolute population numbers or migration levels, States Policies should be focused on ensuring that the Island's working population is of a size and make-up consistent with achieving the States' strategic economic, social and environmental objectives.
- 2. To rescind Resolution I(2) on Billet d'État IV, 2007.
- 3. That a new Population Objective in the following terms should be incorporated into the States Strategic Plan 2013-2017: *That, as far as practicable, Guernsey's population should, in the long-term, be kept to the lowest level possible to achieve the States' Economic, Social and Environmental objectives.*
- 4. To direct all Departments, where appropriate, to take account of Proposition 3, namely the new Population Objective, in developing Departmental Policies and business plans.
- 5. To direct all States Departments to consider how best to support and encourage employees to remain in the work place until retirement age is reached.