JERSEY NASUWT The Teachers' Union

SUBMISSION

STATES OF JERSEY
2016 DRAFT BUDGET STATEMENT
NOVEMBER 2015

1. The NASUWT welcomes the opportunity to comment on the 2016 draft budget statement.

2. The NASUWT is the largest teachers' union in Jersey representing teachers and school leaders.

GENERAL COMMENTS

3. The NASUWT notes that the 2016 draft budget has been lodged against the backdrop of the Medium Term Financial Plan (MTFP) and as such, is very largely reflective of the MTFP, rather than being a standalone budget.

4. The NASUWT is extremely concerned that much of the focus of the budget and MTFP is deficit reduction and austerity, with many of the planned measures potentially impacting significantly on low-income households. The Union believes it is both unfair and unjust for the burden of deficit reduction to be placed on the poorest and most vulnerable in society.

5. There is a clear link between poverty and educational outcomes. The NASUWT is therefore opposed to any measures which will lead, either directly or indirectly, to increased levels of child poverty.

6. Whilst the NASUWT acknowledges that extra investment in education is part of the MTFP and the budget, the Union is concerned that the impact of the

extra funding will be undermined if levels of child poverty increase, thus potentially adversely affecting the educational standards across the island.

7. The NASUWT has grave concerns that the MTFP will lead to, significant reductions in public services and redundancies of public service employees. This will impact extremely negatively on Jersey's economy and has the potential to cause a vicious circle of cuts leading to economic stagnation and/or contraction, as seen in other jurisdictions that have embarked on similar austerity pathways such as the UK, Greece and Spain.

8. The NASUWT is also concerned that the impact of the measures on States employees have not been considered to any acceptable degree.

9. The NASUWT further notes that no review of Jersey's tax regime is intended. The Union finds this unacceptable given that the root cause of Jersey's financial difficulties is not overspending on public services, but the adoption of the 'zero-ten' tax regime, which resulted in a sudden drop of £134m in corporate tax revenues, almost exactly the same amount the States are now seeking to recoup.

10. The fiscal difficulties faced by Jersey are replicated in the other jurisdictions that adopted 'zero-ten', namely Guernsey and the Isle of Man.

11. Guernsey has incurred an overall average deficit of £23.2 million per year over the last 5 years, with the Isle of Man experiencing an average revenue deficit of £9.5 million per year over the same period. This clearly indicates that all three Crown Dependencies are experiencing fiscal difficulties as a result of 'zero-ten'. The Union is therefore deeply concerned that apparently no negotiations have even been contemplated with the other Crown Dependencies on how to tackle this common problem.

12. The NASUWT asserts that the States' actions, of ignoring the cause and treating the symptom by placing the burden on individuals, public sector employees and small local businesses, are unjustifiable.

13. Companies based off-island are effectively exempt from all taxation, yet still rely on Jersey's public services in order to conduct their business. Steps must, therefore, be taken to ensure that all corporations pay their fair share.

14. A further pressure on the budget is in the inclusion, for the first time, of depreciation in the MTFP. This has led to an increase in the perceived deficit of around £50million.

15. Although the NASUWT appreciates it is good practice to include allowances for depreciation, the Union questions the necessity for including it at the current time, given the already perilous state of the finances.

16. The NASUWT asserts it would be logical to delay the introduction of depreciation into the accounts until such time as the economy has recovered, and the States' accounts returned to health.

SPECIFIC COMMENTS

General Taxation

17. The foreword to the Budget Statement states that the lowest paid contribute the smallest amount of income tax, with the 40% of lowest earners paying 3% of the total income tax bill.

18. This is a crude measure which takes no regard of the proportion of income the lowest paid pay in all taxes, i.e. including GST and impôts duties. It also gives no indication of how these figures are changing over time.

19. The NASUWT does not believe the long-term tax principles are being followed. The principles state that the policy should be, amongst other things sustainable and fair, with those on the lowest incomes protected. Jersey's tax regime is unsustainable and unfair in its present format, and does not protect those on lowest incomes.

20. Year-on-year deficits have occurred since the adoption of zero-ten. This cannot be described as sustainable.

21. The NASUWT is further concerned that changes to allowances will impact on the poorest in society.

22. The Goods and Services Tax (GST) was introduced specifically to fill the void created by zero-ten, firstly at 3%, then increased to 5%. GST, is a regressive tax, which hits lower earners disproportionately, therefore breaching another two of the principles, fairness and the protection of low earners.

23. The NASUWT therefore finds untenable the opening page of the Statement which states that no changes are proposed to the taxation system.

Income Tax

24. Although the Budget Report attempts to paint a picture that the poorest in society are being protected, when changes to the benefits system, which are not part of the Budget Statement, are taken into account, it is clear that the lowest paid are shouldering the greatest burden of the deficit reduction programme.

25. A further example of this is the real-terms cut in tax allowances for the over 65s.

26. If it is the intention of this States to ensure that wealthy pensioners ‘pay their way’, this should be done in such a way as to mitigate the effects on the poorest. However, this measure hits all pensioners equally in cash terms, but disproportionately hits poorer pensioners, contrary again to the long-term principles. When changes to the benefit system are taken into account, the effects are multiplied for lower-income pensioners.

27. The NASUWT is concerned that these changes will all combine to increase levels of child poverty.

28. Some of the changes proposed are welcome, such as those involving ‘wife’s earned income allowance’. The NASUWT, being committed to equality, finds

it long overdue that any gender basis of entitlements are removed so that men and women have equality of entitlement. This should be done by increasing entitlements to ensure all receive equal entitlements, rather than targeting and penalising certain sections of the population by removing entitlements. To do so could amount to unlawful, sex discrimination.

29. The NASUWT generally welcomes some of the measures designed to ensure that non-residents pay their fair share, particularly those measures relating to income from property as this income is reliant on public services. The Union has some concerns, however, relating to pension income. Pensions are deferred pay and the States must ensure that pensioners living abroad are not penalised compared to their counterparts who remain in Jersey. The agreements that are in place with a number of countries to ensure pension income is only taxed once must therefore be retained.

Corporate Income Tax

30. The NASUWT is alarmed by the paucity of the Section relating to corporate taxation.

31. The Section relating to personal taxation runs to 7.5 pages, mostly containing proposals that increase the tax burden rather than reduce it. The effects of benefit changes amplify this increased burden.

32. The one page that relates to corporate taxation contains a minor change to investment companies and measure to prevent companies becoming liable of Jersey tax.

33. The cause of the current difficulties is largely, if not entirely due to changes to corporate taxation. For the budget not to bring forward any proposals to tackle this is unacceptable.

34. The NASUWT would have expected the Minister to bring forward proposals to end the situation where Jersey based companies, predominantly small

businesses in such areas as retail and construction, are unfairly treated in comparison to their offshore counterparts, not only undermining the competitiveness of local businesses, potentially adding to the pressures on individual finances, but also resulting in considerable tax revenues being lost to the States, with consequent perceived need for greater cuts.

35. Until the deficiencies 'zero-ten' regime are addressed, Jersey's tax system will be neither sustainable nor fair.

Goods and Services Tax (GST)

36. Although GST is contained in the terms of reference for the Scrutiny Panel, the Minister does not include any proposals within the draft Budget Statement.

37. The GST is a regressive tax, impacting most on the poorest in society. The general comments section of this submission details the Unions' objections to this and why it is fundamentally incompatible with the general principles detailed in the Statement.

Impôts Duties

38. The NASUWT has no particular opinion on much of the proposed impôts duty changes, recognising that there are public health considerations to many of the items subject to such duty.

39. The Union is concerned, however, that the increase in fuel duty is over 20 times greater than the current rate of inflation, as measured by the Retail Prices Index (RPI).

40. This change will again impact on those least able to afford it, especially those who are unable to use public transport, including disabled adults and children.

41. The NASUWT understands that LibertyBus is unable to claim back the fuel duty it pays, unlike bus companies in the UK. This means that the cost of this

duty rise will, most likely, be passed on to passengers, including children using the school bus services, especially as there are no free services.

42. Again, in the attempt to increase revenues, the poorest in society suffer the most. This will be particularly true of families already disadvantaged by benefit changes.

Stamp Duty

43. The NASUWT has no comment to make on changes to Stamp Duty.

Other Tax proposals

44. The NASUWT welcomes the proposals to remove gender considerations in the tax system, and believes this is long overdue.

45. There are, however, very few other tax proposals. As stated above, this is extremely disappointing given Jersey's circumstances.

Capital Programme

46. The NASUWT notes that the capital programme over the next 25 years was debated and agreed before the first MTFP, prior to the current financial difficulties surfacing. The Union, therefore, would therefore expect that the programme is revisited prior to MTFP2 being agreed.

47. The NASUWT recognises that some capital works are unavoidable to ensure the smooth, effective and efficient running of services, but urges the States to prioritise capital spending so that pressing issues are addressed, whilst non-urgent projects are delayed until the fiscal situation improves.

48. As the draft Budget Statement only includes brief details of the schemes, it is difficult to comment on the details and the appropriateness of these. However the Union does note that significant sums, totalling nearly £2million over the

next four years have been allocated to 'desktop upgrades' in the Chief Minister's Department. Although the provision of effective IT resources is vital to effective operation, such amounts do appear excessive at times of hardship.

49. The NASUWT welcomes the inclusion of the refurbishment/rebuild of two schools is included in the programme. The provision of a suitable learning environment fit for the 21st Century is vital to enable pupils to fulfil their potential. This is especially true at Les Quennevais School, which has large amounts of asbestos requiring significant and costly management to remain in a safe condition. If any items are to be removed from the programme, it is vital that these school works go ahead to ensure the safety of pupils and staff.

Transfers of Funds

50. The draft Budget Statement includes a number of instances of funds being transferred from reserves in order to fund expenditure.

51. The NASUWT understands that a limit has been placed on the level of reserves that can be used, in that the strategic reserve fund cannot fail below the level the fund was at in 2012.

52. Whilst the NASUWT appreciates that continual funding of revenue expenditure is unsustainable in the long term, the Union believes that short-term funding in order to meet extenuating circumstances, is perfectly reasonable.

53. More consideration should be given to the use of reserves to fund short-term funding gaps, rather than embarking on a slash-and-burn approach to services which the States will find difficult, if not impossible, to reinstate.

Economic Implications

54. The NASUWT is deeply concerned that the Budget, being based on the MTFP, will have serious consequences for the Jersey economy.

55. The Budget and MTFP both commit the States to drastic cuts to public services, through a combination of service cessation and/or reduction, and outsourcing. It also commits the States to significant headcount reductions, and significant pay restraint, including no apparent funding for public sector pay awards in 2016.

56. At the same time, taxation and benefit changes will also impact on low-income families.

57. These measures will constitute a ‘perfect storm’ for Jersey’s economy.

58. Evidence from other jurisdictions has shown that significant cuts to public services and spending lead to a contraction in the economy as a whole.

59. Whereas in other jurisdictions which have contracted their public sectors, the private sector has, albeit to a limited extent, filled the gap, by providing employment, the island nature of Jersey makes this difficult. The effects of pay restraint and redundancy in the public sector are likely to be reduced spending power of significant sections of the population, leading to contraction in the private sector also. This will result in reduced tax revenues for the States, which will cause further pressure for cuts.

60. It should be noted, that jobs in the private sector which have been created tend to be low-paid and zero-hours based. This is likely to be replicated in Jersey, leading to increased pressures on the Social Security budget, as well as reducing the States’ revenues. This is especially true if the companies involved are based off-island.

61. Outsourcing will have a similar effect, especially where off-island companies are awarded contracts. Whereas the funding for these services was previously recycled into the local economy, the profits generated by the outsourcing company will be exported, leading to further contractions in the tax-take for the States.

62. The NASUWT, therefore, has significant concerns that the measures in the budget and MTFP will not only fail to address the budgetary difficulties, but will instead amplify them.

Impact of Financial Forecasts

63. The NASUWT notes that the current stated deficit of £145million did not appear until early in 2015. There was no mention of the deficit during the General Election campaign a few months previously. The NASUWT, therefore, concludes that the economic modelling conducting up until the end of 2014 was significantly flawed.

64. The NASUWT, therefore, has doubts about the accuracy of forecasts in the past, which translates into concerns moving forward, given that the body responsible for making such predictions is the same and its methodology also appears to persist.

65. For example, when the 2015 budget is compared to the forecast at October 2015, it shows income was over-estimated by £9million, expenditure under-estimated by £14million, leading to a higher total deficit £23million more than budgeted for.

66. The NASUWT is further concerned that the forecasts do not fully appreciate the negative consequences of the economic policies being enacted, such as the impact of wide-scale outsourcing.

67. Notwithstanding the above, the NASUWT believes that the States basing their forecasts on the central scenario of the models is prudent.

68. The States must, however, be flexible in order to respond to unexpected changes rather than slavishly following forecasts.

69. If the actual outturn is higher than anticipated, this must be used to protect services and reward States employees, not to replenish reserves.

70. Similarly if the situation worsens, the States must be prepared to re-evaluate the strategy rather than engage in an ever-deepening vicious circle of cuts and austerity.

Impacts of the Likely Outturn for 2015 on the 2016 base budget

71. The 2015 budget has proved to be wildly inaccurate, with both income down and expenditure up. The States should heed this as a warning sign about the impact of continued austerity measures could lead to.

72. As the likely outturn for 2015 is known at the time of debate, being less than two months of the year remaining, the budget for 2016 should reflect this position, thus impacts on the base budget should be negligible.

73. The NASUWT would be deeply concerned if the outturn for 2015 was significantly different from that expected in October.

Progress made in Savings

74. The NASUWT is concerned that the savings being made are being done so on an unsustainable basis.

75. In addition to the comments made above regarding cuts to the public sector, the NASUWT is concerned that savings are being pursued in a manner which is incoherent. A prime example of this is the recent round of voluntary severance. It appears little or no consideration was given to the impacts of

staff leaving the organisation, leading to increased workloads for those who remain and poorer services.

76. The States are effectively putting the cart before the horse, by embarking on staff reductions, then seeking to redesign services. This will inevitably lead to expertise being lost that will be required, and possibly people being re-hired who had previously left through voluntary means at great expense to the States.

77. The NASUWT asserts the logical and, therefore, the most cost effective method going forward is to redesign services then look at the staffing required, not the other way round.

78. The NASUWT further asserts that the NASUWT and other unions are best placed to identify deficient working practices, yet we have not been consulted to any degree over service redesign.

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