



Health, Social Security and Housing Scrutiny Sub-Panel



Review of Benefit Levels

Presented to the States on 28th March 2011

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1. Chairman's Foreword

- 1.1 When the HSSH Income Support Sub-Panel set out in October 2009, to produce a report on the levels of benefit and the structures put in place under the Income Support system, I realised that we had taken on a massive task. Not only was Income Support designed to replace some 14 separate benefits, it was intended to be both the safety net for the vulnerable and to support those in work.
- 1.2 In addition, Income Support is a complex system, which attempts to meet the needs of a wide range of households. We also had to examine the interaction of Income Support with other fiscal and social policies such as minimum wage levels and rental policies.
- 1.3 The HSSH Sub-Panel has been fortunate to be able to co-ordinate its own research with the publication of two other pieces of work undertaken by the States of Jersey Statistics Unit:
- Jersey Income Distribution Survey 2009/10
 - Jersey Annual Social Survey 2010
- 1.4 The first of these is vital in setting accurate and up to date low-income thresholds by which Income Support levels can be judged. We were pleased to work with the Social Security Department and States Statistics Unit to devise a comprehensive questionnaire, which formed the basis for chapter 12 in the Jersey Annual Social Survey 2010. The survey explored individual reactions to the financial difficulties involved in living in Jersey.
- 1.5 With such an ambitious piece of research, it is almost inevitable that some topics receive greater attention than others do. In this case we have not managed to give due attention to the interaction of Income Support with other benefits for those with disability. This topic deserves its own investigation at some stage.
- 1.6 However, 3 years on from the introduction of Income Support, this report is able

to make some definitive analysis of the effectiveness of the system. Despite evidence of some improvements in the ability of the Income Support system to alleviate conditions for those in our community who are the least well off, the overall picture is of a system that contains inherent structural faults which cannot be described as “minor teething troubles”. These structural faults, in the opinion of the Sub-Panel require a fundamental rethink of what the realistic goals of Income Support should be, and how it can best be organised to achieve those aims.

1.7 **Relative Low Income**

Analysis of the levels of income produced for a wide range of household types shows that the basic components of Income Support produce levels that are consistently below (between 75% and 92%) the relative low income threshold (60% of median After Housing Costs) for those family types.

1.8 The persistence of these substandard incomes in those household groups (pensioners and single parents) which dominate the lowest income quintile indicates that Income Support is insufficiently funded. There is early evidence that households with children suffer increased financial difficulties.

1.9 **Rent levels**

There is substantial evidence that a major contributor to financial hardship on the island is the high cost of accommodation with corresponding high rent levels. The inclusion of the rental component within Income Support, which can be over 50% of entitlement, produces an unwelcome risk of a “benefit trap”. Equally, insufficient supply of States social housing puts families at risk of increased hardship in the private rental sector. The current system of funding social rented housing is unsustainable.

1.10 **Minimum Wage**

Income Support clearly contains insufficient incentives to work with the result that it is difficult for many household types on the minimum wage to escape from the

need for Income Support. The tapers and disregards in Income Support result in work at the minimum wage producing only £1 per hour additional income. Income Support can be seen as propping up the current level of the minimum wage through tax revenues.

1.11 **Income Support and income tax**

For some household types it is possible simultaneously to be in receipt of Income Support and to pay income tax. This is obviously inefficient and must be addressed.

1.12 **Pensioner Savings**

The system of “deemed income” applied to capital assets is a heavy disincentive to save and discriminates against those (especially pensioners) who have managed to save. It should be replaced by a system which encourages saving.

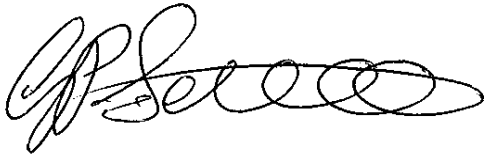
1.13 **Medical Costs**

There is substantial evidence that medical, dental and ophthalmic costs are a cause of financial hardship for many households, especially for pensioners and families with children, where demand is high. There is also evidence that there is sufficient anxiety about medical costs to prevent some from seeing their GP when they fall ill. This runs directly against policies to promote preventative care through the primary care system, and must be addressed as a priority.

1.14 All of the above problems go beyond the possibility of “minor” adjustments to the system, but require a major rethink of the structure and performance of Income Support.

1.15 It is hoped that this scrutiny report will be seen as a positive contribution to better understanding the issues involved in formulating and properly targeting social and economic policy over the coming decade.

- 1.16 This has been a significant piece of work that has been achieved as a result of the hard work of the supporting officers. The many extra hours involved in the public consultation part of the review is recognised and appreciated.
- 1.17 The Sub-Panel wishes to extend its thanks in particular to them and to all those who have contributed to this report.

A handwritten signature in black ink, appearing to read 'G.P. Southern', with a stylized, cursive flourish at the end.

Deputy G.P. Southern of St. Helier,
Chairman, Health, Social Security & Housing Scrutiny Sub-Panel: Income
Support

2. Key Findings and Recommendations

Please note: Each key finding is accompanied by a reference to that part of the report where further explanation and justification may be found.

Key Finding 1 (Page 40)

The introduction of Income Support has reduced, by one third, the numbers of single parent and pensioner households in relative low income since 2002. However, significant proportions of these households remain below the current low-income threshold. These groups also show significant depth of poverty.

Recommendation 1 (Page 40)

If Income Support is to achieve the policy aim of “enabling people to avoid poverty”¹, the Minister for Social Security must undertake a fundamental overhaul of the Income Support system and its funding.

Key Finding 2 (Page 47)

Over two fifths of households in the lowest quintile and of those receiving Income Support report difficulties in coping financially.

Key Finding 3 (Page 47)

With the exception of those households whose income is over £70,000 per year, at least two fifths of all households report that their financial situation is worse than it was a year ago. Of those who find it very difficult, 58% state that their financial position is much worse.

Recommendation 2 (Page 47)

The Minister for Social Security must not allow the Comprehensive Spending Review to reduce benefit levels.

¹ Quoted from report attached to “Draft Income Support (Jersey) Regulations 200-“ (P.90/2007)

Key Finding 4 (Page 56)

High rental levels are a major contributor to financial hardship in Jersey. 21% of households in the lowest quintile report arrears for rent whilst between 10% and 15% were in arrears for their domestic energy bills.

Key Finding 5 (Page 59)

The HSSH Sub-Panel considers that the eligibility rules for the rental component of Income Support for under 25 year olds are discriminatory and may be subject to challenge under the Human Rights (Jersey) Law 2000.

Recommendation 3 (Page 59)

The Minister for Social Security must review, as a matter of urgency, his policy on the eligibility for the accommodation component of Income Support of under 25 year olds.

Key Finding 6 (Page 62)

The basic components of Income Support are currently set at rates that are well below the relative low-income threshold for a wide range of household types.

Recommendation 4 (Page 62)

The Minister for Social Security must bring a report to the States outlining his targets for more closely aligning Income Support rates with the low income threshold over a measured timescale.

Key Finding 7 (Page 68)

Despite the additional weighting in the original design of Income Support given to families with children, the evidence contained in this chapter indicates increased financial difficulties for these households.

Recommendation 5 (Page 68)

The Minister for Social Security must address the role of Income Support for families with children, in conjunction with the development of the Strategic Framework for Children and Young People.

Key Finding 8 (Page 70)

Applicants for Income Support do not receive sufficient information to allow them to understand how their benefit is made up.

Recommendation 6 (Page 70)

The Minister for Social Security must ensure that applicants for Income Support are given a breakdown of their Income Support components in the letter notifying them of their award. The Income Support calculator must be made available to the public by the Social Security on its web site and in the department.

Key Finding 9 (Page 71)

There is clearly a need to make public a regular report schedule on Income Support, including the cost of each component.

Recommendation 7 (Page 71)

The Minister for Social Security must publish the cost of each component of Income Support in his Department Annual Report and Accounts.

Key Finding 10 (Page 72)

The effectiveness of Income Support at reaching vulnerable groups has not so far been analysed.

Recommendation 8 (Page 72)

The Minister for Social Security should agree, across departments, a set of standards for assessing the needs of particular vulnerable groups and for the measurement of performance in targeting those needs.

Key Finding 11 (Page 73)

There is no evidence that research has been conducted into the under claiming of Income Support.

Recommendation 9 (Page 73)

The Minister for Social Security should analyse the data contained in JIDS 2009/10 and other sources to assess take-up rates for Income Support.

Key Finding 12 (Page 80)

Accurate figures for the sums which are paid to the States Housing Department and to private landlords are essential for the development of future housing policy.

Recommendation 10 (Page 80)

The Sub-Panel recommends that the Minister for Social Security makes public accurate figures of gross annual payments of the accommodation components of Income Support.

Key Finding 13 (Page 83)

Clearly, there are significant structural problems in the social housing finance policy, causing restricted access to affordable social rented housing. It puts great pressure on the tenants receiving Income Support subsidies in the private sector.

Recommendation 11 (Page 83)

The Minister for Social Security must work with the Ministers for Treasury and Resources and Housing to ensure that the mechanism for financing social housing is separate from the provision of means-tested Income Support benefits.

Key Finding 14 (Page 87)

The application of the accommodation component of Income Support set at the fair rent level to those households renting in the private sector may result in increased hardship especially for families with children.

Recommendation 12 (Page 87)

The Ministers for Social Security and Housing must establish a mechanism for reviewing fair rent levels at regular intervals.

Key Finding 15 (Page 88)

The current savings requirements imposed by the Comprehensive Spending Review places the funds available to maintain the accommodation component at 'fair rent' levels at risk.

Recommendation 13 (Page 88)

Pending a long term solution to the funding of social housing, (Recommendation 12) the Minister for Social Security must resist any pressure to cap the rising cost of the accommodation component of Income Support.

Key Finding 16 (Page 95)

At its current rate, the minimum wage results in high demand for Income Support from a wide range of household types.

Recommendation 14 (Page 95)

The Minister for Social Security, in his own review of Income Support, must examine the interaction between the level of the minimum wage and the overall cost of Income Support.

Key Finding 17 (Page 95)

The system of tapers and disregards for earned income in the Income Support structure provides insufficient incentives to work.

Recommendation 15 (Page 95)

The Minister for Social Security, in his own review of Income Support, must conduct a thorough overhaul of tapers and disregards for earned income in order to greatly improve incentives to work.

Key Finding 18 (Page 101)

Potential or actual overlap between Income Support and Income Tax thresholds is a major defect in the system.

Recommendation 16 (Page 101)

The Ministers for Social Security and Treasury and Resources must work together to reduce the overlap between Income Support levels and Income Tax thresholds at the lower end of the earnings distribution in order to correct inefficiencies and report their findings within 12 months.

Recommendation 17 (Page 101)

The Ministers for Social Security and Treasury and Resources should pursue the potential benefit from improved modelling of the tax and benefit system to produce profiles similar to that produced by the UK Government entitled “Tax Benefit Model Tables” and report their findings within 12 months.

Key Finding 19 (Page 107)

The current Deemed Income system, which is currently charged on savings at an annual interest rate equivalent to 20.9%, severely penalises those who have saved for their retirement.

Recommendation 18 (Page 107)

The Minister for Social Security should set an interest rate to be charged on savings over the threshold at a realistic level to reflect actual bank interest rates. This rate should be reviewed annually.

Key Finding 20 (Page 115)

There is evidence to show that medical costs (G.P, dental and ophthalmic consultations) are a serious problem for many households, especially low-income households in receipt of Income Support, to the extent that significant numbers of people report that the cost stops them going to their GP.

Recommendation 19 (Page 115)

The Minister for Social Security must ensure that information is fully and readily available to the recipients of Income Support about how medical costs are to be met.

Key Finding 21 (Page 115)

In principle, Household Medical Accounts are a useful mechanism to assist Income Support clients to save for their GP costs.

Recommendation 20 (Page 115)

The Minister for Social Security should ensure that all Income Support claimants who wish to can set up a Household Medical Account.

Key Finding 22 (Page 116)

The withdrawal of free access to GPs for some low-income households under the HIE scheme following the introduction of Income Support has, in many cases, had a negative impact.

Recommendation 21 (Page 116)

The Minister for Social Security should review the funding of medical care to develop a costed scheme to provide limited free access to GPs for certain vulnerable groups and report his findings within 12 months.

3. Terms of Reference

The Sub-Panel agree to the following Terms of Reference (ToR):

ToR 1

To assess whether Income Support benefit levels and structures are set appropriately in relation to:

- The changing income distribution and the relative poverty standard; and
- Minimum standard of living and price inflation, with particular reference to rent levels and the effects of price inflation on households below average income

ToR 2

To assess how the level of Income Support benefits and their design potentially interact with other areas of fiscal and social policy, with particular regard to:

Income tax thresholds,
Social Insurance contributions,
Minimum wage levels,
Pensions and
Social rent-setting policy and housing finance

With particular examination of:

Treatment of earned and unearned income,
Tapers and disregards,
Fixed Tariff Income and
The incentive structures that result from such design, especially those regarding incentives for employment and saving.

ToR 3

To review the delivery of Special Payments with particular regard to dental and medical needs.

ToR 4

To examine the structure of the components of Income Support and their treatment of potentially vulnerable target groups, to specifically include:

Children,
Pensioners,
Single parent families,
Young people and
Those with a disability.

ToR 5

To examine evidence concerning the impact of the phasing out of transitional payments.

ToR 6

To consider any other pertinent matters that may arise during the course of the review.

4. Sub-Panel Membership

4.1 Health, Social Security and Housing Scrutiny Sub-Panel

Membership: Income Support Review of Benefit Levels

Deputy G.P. Southern of St. Helier: Chairman

Deputy D.J. De Sousa of St. Helier: Vice-Chairman

Connétable S.A. Yates of St. Martin

(until 21st June 2010 and from 7th October 2010)

Connétable D.W. Mezbourian of St. Lawrence

Deputy T.A. Vallois of St. Saviour (until 15th February 2011)

4.2 Advisors

Mr. E. Le Quesne

Mr. E. Le Quesne retired in 2001 as Head of Science at Victoria College, a post he enjoyed for 28 years. He has taken an interest in local issues, for example as a founder member and current Treasurer of JHOG (Jersey Homeless Outreach Group). He is secretary of the CTJ Housing Trust, which has over 120 properties to rent. He is chairperson of the Amos group of Christians Together in Jersey, which meets monthly to look at social issues in Jersey and comment on proposals put forward by States ministers. The group made comments and were consulted on the original proposals for an Income Support system. Mr Le Quesne also assisted on a previous Income Support Sub-Panel.

Dr. Martin Evans

Dr. Martin Evans is Senior Research Fellow in the Department of Social Policy and Social Work and works in both the Social Disadvantage Research Centre and the Centre for South African Social Policy at the University of Oxford. He joined the Department in March 2007 having previously worked at the University of Bath and at the London School of Economics. His research interests are in

income, poverty and social security, developing countries, neighborhood deprivation and welfare to work programmes.

He was an Economic and Social Research Council Research Fellow 2005-08 during which his research profiled the changes in British social policy since 1979 using an innovative model lifetime approach. In 2006 he was Visiting Fellow at the School of Social Welfare at the University of California, Berkeley. He is an associate of the Centre for Analysis of Social Exclusion at the LSE. Before gaining his PhD from the LSE in 1992, Martin worked in community law centre and advice centres.

Dr. Susan Harkness

Dr. Susan Harkness (DPhil London; MA Sussex; MA Cantab) is a senior lecturer in Social Policy at the University of Bath. She is a labour economist and was previously a lecturer in economics at the Universities of Bristol and Sussex and a researcher at the LSE. Her main research interests are in the areas of poverty and inequality, female and household patterns of employment and child poverty.

Officers

Mrs. C. Le Quesne, Scrutiny Officer.

Mr. M. Robbins, Scrutiny Officer.

5. Introduction

- 5.1 The Income Support system was introduced to replace 14 separate welfare benefits from a number of sources. It was designed to produce a more coherent and efficient mechanism for the delivery of benefits to the poor and the vulnerable. There can be no doubt that the introduction of Income Support has been the most significant piece of social policy reform of the last decade.
- 5.2 Income Support has now been operating for three full years, since January 2008. Previous reviews of Income Support have dealt with the design and performance of Income Support.
- i. HSSH Delivery of Income Support: Structure (S.R.5/2006)
 - ii. HSSH Review of Income Support (S.R.17/2007)
 - iii. Distributional Analysis of Income Support Households. June 2008 Social Security Department.
 - iv. HSSH Review of Income Support (S.R.5/2009)
- 5.3 The Panel decided, at the end of 2009, to constitute a Sub-Panel to undertake a review on benefits and to focus on the policy underlying the provision of the existing system. The intention of the Sub-Panel was to look at Income Support on a fundamental level, in terms of what it does to alleviate poverty.
- 5.4 Since then, of course, the Income Support system has come under increasing pressure from the impact of the recession on household incomes. This has resulted in increased demand on resources and the increasing bill for Income Support has had to be met through additional temporary funding from the Treasury. The Sub-Panel notes, however, that funding for Income Support remains subject to potential reductions in the Comprehensive Spending Review plans for 2012 and 2013.

5.5 In focussing on what benefits are being delivered to what household types, the Panel has been able to draw on extensive data from the Department of Social Security (DSS). In addition, the review has been designed to draw on two further pieces of research conducted by the States of Jersey Statistics Unit:

Jersey Income Distribution Survey Report 2009/10 (JIDS 2009/10)
Jersey Annual Social Survey 2010 (JASS 2010)

5.6 The former, published in October 2010, was based on data collected in late 2009 and early 2010. It therefore forms an accurate basis for comparison of levels of Income Support with relative low income levels and median / mean income levels in the Island.

5.7 The Sub-Panel conducted a large survey regarding the ability for households to cope financially in Jersey.

5.8 In conducting this part of the research the Sub-Panel decided to incorporate some new methods of engaging with the public in addition to the usual media approach.

5.9 The survey could be accessed in several ways

- On the Scrutiny web site.
- Through Facebook.
- In face to face interviews at Brook and elsewhere.
- At the Scrutiny 'Big Red Tent' in King Street on several occasions, when members of the public were able to give their opinions directly to the Members of the Sub-Panel.
- By post and hard copy to the Parish Halls and other locations.
- There were 870 respondents.

5.10 This self-selecting survey of opinion gave many useful insights into the financial situation of Jersey Households. This is reflected in the many quotes from the public included in this report.

5.11 However, the real value of this approach to ‘deprivation markers’ is given by the properly weighted numbers contained in the JASS 2010 (Chapter 12), conducted by the States Statistics Unit, which can be taken with a high level of confidence to be representative of the overall population.

5.12 The report accompanying the Draft Income Support (Jersey) Regulations 200- (P.90/2007) which put the Income Support system into operation, contained some very ambitious aims;

“The new system will help and enable people to both avoid poverty and to take appropriate actions and life decisions to get out of poverty. The system will do this by effectively tackling real needs whilst promoting work and encouraging self-reliance...”²

5.13 Notwithstanding these lofty ambitions, the HSSH Panel, based on its research into the structures proposed for the implementation of Income Support, published a number of reservations in SR 17/2007 as follows;

Policy makers, States Members and Ministers have to be more questioning of simple platitudes of strategic policy aims and think more about design and implementation and the necessary resources to make them happen. Platitudes are easy, making things improve across the board is a bigger challenge.

Second, some priorities have to be agreed. Commitments to end child and pensioner poverty within a set timetable and programmes re-orientated to do so could be adopted. Such promises will require better-understood and considered programmes to support employment and saving. Such an approach would better match the wider policy aims and may help focus policy makers’ minds on the real trade-offs that have to be made when trying to promote opportunity to work alongside income benefits.

² Quote from report attached to P90/2007

Third, there is the opportunity to tinker with the structures of Income Support – but fundamentally, it is not an anti-poverty programme that makes work pay. Neither is it an anti-poverty programme for the elderly that supports saving for old age. The essence of the reforms has been to squeeze out any resources that promote and reinforce work to those on low to moderate incomes. Any radical change is beyond tinkering but would require complete rethinking.

Fourth, there is the need to prepare for the potential negative effects that Income Support will have on work and saving, even if no larger reform is possible. These are potentially considerable without some immediate action to change the incentive structures to improve the gains from work and to reward savings.’

5.14 In this report we have built on the earlier research and we examine the fact that during the development process many key funding elements considered to be essential to the effective delivery of Income Support were not incorporated into the new scheme. For example, the work done by the Centre for Research in Social Policy (CRSP) “minimum budget standards”³, which was intended to provide a costed set of family-based minimum living standards that could be used to calibrate an anti-poverty programme such as Income Support, was abandoned.

5.15 Income Support was subsequently implemented on 28 January 2008 to ‘over 8,000 households’ and the only intervening report on the numbers and composition of recipients was published in June 2008 and referred to the position in late April 2008 on 8,079 households.⁴

5.16 It is now more than two years since the release of those detailed statistics on the numbers of Income Support claimants and the amount of public reporting

³ Household Budgetary Requirements, Centre for Research in Social Policy, Loughborough University December 1998

⁴ Distributional Analysis of Income Support Households. June 2008 Social Security Department.

of further statistical information to show the operation of the new Income Support scheme has been minimal. The Social Security department provided the data for a single Table to show the population relying on Income Support for 31st December 2009 (replicated below as Table 1).

Table 1: Participants of Income Support Claims on 31st December 2009⁵

Age range	Number of Participants
0-15	3,455
17-64	6,636
65 and over	3,514

Note: Number of claims in payment on 31st December 2009 is 8,257
Source: Social Security Dept.

5.17 The Sub-Panel's ongoing concern through all of its reviews is that fundamentally the new system has been designed to be revenue neutral in the first instance and has not been developed on the basis of current and updated economic and statistical evidence to ensure that the above aims can be delivered.

5.18 That concern was raised during the course of the previous Sub-Panel review when the Minister for Social Security at a Public Hearing made the following statement on the 3rd March 2009;

'I went back to the issue [of] the money available for Income Support. It is the money that has been approved by the States and is approved by the States in the Annual Business Plan. Although I might have intellectual aims of what I want to achieve with Income Support, it is limited to that extent by the amount of money that there is to distribute and it is a matter of trying to distribute that in the way that a society, and we, as politicians find is the fairest.'

⁵ Source: Table 21.4 Jersey In Figures 2009

5.19 The Sub Panel believes that there is still no clear indication as to whether or not benefit levels are appropriate to ensure that low-income households do not suffer hardship and that raw data upon which to base those levels is currently not available. The Minister for Social Security stated at a public hearing on the 21st May 2010;

‘That is one of the things that will come out of the Income Distribution Survey. We will be able to see where people are, what incomes they are living on, how they are managing and we will be able to see whether Income Support is effectively reaching them and they are being helped. We have not done any other piece of work there but that is one big thing that we believe will come out and that will help us look at where our component levels are, whether they are set at the appropriate level or not, whether they need to be adjusted or not. It is an important piece of work that.’

5.20 The intention of this report is to focus on two areas:

- i) whether the levels of benefit are set at the correct level to address the financial hardship experienced by different groups in society and
- ii) where the greatest needs are and how best to focus on delivering support where demand is greatest.

5.21 A better understanding of the answers to these questions should form the basis for social policy decisions.

5.22 The Sub-Panel has focused its attention on understanding the financial ‘pinch points’ felt by low-income families and those requiring help from Income Support. It has sought to identify areas which appear to need further investigation by the Minister.

5.23 Incentives to work and to save, the cost of childcare, high rental levels and medical costs are all issues that have repeatedly been drawn to the Sub-Panel's attention. It recognises that the existing Income Support system is an administrative system that does not include the old community care aspects that formed part of the former parochial welfare system. It must be said, however, that as a result the services delivered by Income Support are far more inflexible than the system it replaced. The existing structure has insufficient discretion to respond effectively to individual needs in a crisis.

6. Case Studies

- 6.1 *“I feel that I need to grovel to Income Support by way of going into Social Security every week and getting my 'Looking for work' booklet signed, yet when I was working I didn't ask Social to justify taking 6% of my wages every week. I am desperate to get off Income Support as it makes me feel like a scrounger. Since becoming unemployed I have applied for so many jobs but only a handful have got back to me which is very disheartening!”⁶*
- 6.2 In this part of the report the Panel considers hypothetical case studies⁷ that examine Income Support income levels and incentives to work. These case studies graphically illustrate some of the failings of the current level and structure of the Income Support system. For these examples, current 2010/11 Income Support rates from the revised DSS Income Support Calculator for October 2010⁸ are used.
- 6.3 Single Householder of Working Age: ‘Marie’**
- 6.4 In this hypothetical case study ‘Marie’ is 26 and rents a one-bedroom flat. Her basic needs are covered in the ‘basic components’ of Income Support that total £140.70 per week (£7,352 per year). In addition, her rent will be covered in full (as long as the rent is at or below the accommodation component that Income Support uses for such property types).
- 6.5 Until recently, Marie was sleeping on her friend’s couch and had been for two months. Despite looking for accommodation which was affordable, she had been unable to find anything suitable. During this time her weekly Income Support to meet her basic needs was £92.12 (£4,813.27 per annum) as a non-householder.

⁶ Response to survey 292

⁷ These are called ‘model families’ in UK literature and can be compared to the published ‘Tax Benefit Model Tables’ that are produced every year.

⁸ Now called the IS Audit calculator.

- 6.6 The large majority of Income Support recipients rent their accommodation (68% of all claimants). As a single, fit and healthy young person with no special needs, Marie is not eligible for States housing despite being a low earner. She therefore is one of the 30% of all Income Support claimants who rent in the private sector. After two months of searching, she is grateful to have found a one bedroom flat at the fair rent level of £152.53. Her rent is fully covered by the accommodation component of her Income Support.
- 6.7 When we add together her basic and rent components we see that rent is a very high proportion of her overall Income Support levels. Her total Income Support is £293.23 (£140.70 +152.53) of which 52% is rent. Her annual income from Income Support is £15,247.
- 6.8 Marie works full time (37.5 hour weekly), at the minimum wage of £6.20 per hour. She therefore earns a gross weekly wage of £232.50 which is a net wage of £218.55 after social security contributions. This means that her earnings are topped up by Income Support by the amount of £113.04 a week.
- 6.9 Marie's employer asks her to increase her hours to 40 hours a week (an additional 2.5 hours). Her gross earnings rise to £248 and her take-home pay to £233.12. Her Income Support, however, falls to £101.03 per week. This means that her extra wages of £15.50 only gave rise to a net increase in income of £2.56. Her additional hours had a real hourly rate of just £1.02 as she faced an 'effective deduction rate' (from social security contributions and Income Support withdrawal) of 83% for every pound of additional earnings.
- 6.10 Her extra hours are because several other colleagues at work have been made redundant and her boss has told her that her job is also not secure. Marie is worried about being made redundant but realises that if she were, she would only be £40.92 worse off if she were unemployed. She works out that she would be able to manage on the £293.23 she would get if she were unemployed. Maybe redundancy would not be that bad but she worries about getting another job.

6.11 Some weeks later it is pointed out to her that if she continues to work 40 hours a week, her gross earnings over the year will rise to £12,900, and that this is above the tax threshold of £12,650 (until January 2011) on her gross earnings. By working the additional 2.5 hour a week, she has made herself eligible to pay tax. She is £133.12 pence better off a year but is now liable to pay tax at the marginal rate of 27% on £250 of her earnings; a tax bill of £67.50.

6.12 Does Marie's income from Income Support mean that she is in 'poverty'?

6.13 The after housing cost (AHC) relative low-income threshold for Marie, taken from JIDS2009/10 data, is £210 (60% of median). If she continues to work 40 hours a week, her net income, after she pays her rent, will be £181.62, leaving her below the low-income threshold.

6.14 Marie's case shows that she is caught in a 'poverty trap' because

- **she needs help from Income Support even when working a full week at the minimum wage;**
- **of the combination of a low minimum wage and high rent levels;**
- **working extra hours produces very little reward;**
- **her weekly income will drop by only £40 if she were to become unemployed.**

On top of which, she may be liable to pay income tax whilst still receiving Income Support.

6.15 A Married Couple with no Children: 'Jackie and Bill'

6.16 The second hypothetical case study is a family profile of a married couple of working age, called 'Jackie and Bill' for illustrative purposes, who have no children.

6.17 Their Income Support basic components total £232.82 a week (£12,165 per annum), made up of two adults (at £92.12) and household component of £48.58.

As a couple, Jackie and Bill receive 166% of a single person's basic components. Like Marie, Jackie and Bill can have their rent met in full at the fair rent level of £152.52. This brings the maximum level of Income Support entitlement to £385.34 a week, (£20,037 per annum).

- 6.18 Jackie and Bill both work full time on the minimum wage. At a 37.5 hour working week, this provides a combined take-home pay of £437.10 per week. This level of earnings reduces their Income Support to £24.98 in 2010. Their total income in this year is £462.08 a week.
- 6.19 This case study so far has assumed that Jackie and Bill are paying the 'fair rent' for their accommodation. The reality of the housing situation makes this extremely unlikely. Jack and Bill have no children; are fit and able; without special needs and are under 50 years of age. They are not eligible for States housing and have to live in the private sector. Jackie and Bill are paying £200 per week⁹ for their 1 bedroom flat.
- 6.20 At the market rate of £200 per week Jackie and Bill fall significantly below 60% of the equivalised median income (relative low income threshold) for a couple. Even if Jackie and Bill were paying the 'fair rent' at £152.52, their income would still fall below this low-income threshold after housing costs.
- 6.21 Their scenario is not unusual in Jersey. Meeting the cost of such a high rent takes them below the 60% equivalised median after housing costs and below the relative low-income level by £51 per week.
- 6.22 Liability for income tax for couples also depends on the number of earners as liability is based on joint earnings and there is Wife's Earned Income Allowance alongside the Married Personal Allowance.

⁹ Jersey Insight / Jersey Evening Post 7th Dec 2010.

- 6.23 The potential overlap between Income Tax and Income Support therefore also depends on how such allowances are taken up alongside individual and dual earnings. The level of annual earnings at which Jackie and Bill begin to pay Income Tax has remained constant through 2009 and 2010 and is £20,280 if there is just one earner and £24,780 if both are earning.
- 6.24 Their gross earnings were £24,180 not including Income Support. As Income Support is exempt from Income Tax, they fall below the level where they would be required to pay tax. The couple are better off by £76.73 each week if they work than they would be if unemployed and solely supported by Income Support.
- 6.25 Bill gets the offer of promotion at work. He is offered a post of supervisor at £7 an hour. This means that he is responsible for training up new recruits. His annual salary rises by £1,560, from £12,090 to £13,650. Their entitlement to Income Support, however, is reduced by £23.25 to £1.73. This equates to his earning an extra £6.25 per week.
- 6.26 His salary now stands at £13,650, which combined with his wife's earnings of £12,090 takes them to combined gross earnings of £25,740. This is £960 over the income tax threshold for a working couple. It will result in a tax bill of £259 at the end of a full year or £4.98 each week.
- 6.27 By taking a promotion and improving his earnings, he is better off by the grand total of £1.27 per week.
- 6.28 Jackie and Bill's case shows:**
- **the effect of high rents in the private sector;**
 - **the need for both to work if they are to escape the need for Income Support and**
 - **the potential overlap between Income Support and the income tax threshold which reduce incentives to earn more.**

6.29 A Working Age Couple with Children: 'The Maretts'

- 6.30 The last hypothetical case examines the Maretts, who have two children of school age. Here we first examine the interaction between wages and Income Support levels before turning to the costs of childcare.
- 6.31 The Maretts' basic Income Support entitlement for a family with two children is £360.78 per week. The accommodation component for a three-bedroomed house is £251.72. That is, a total entitlement of £612.50, when neither parent is in work. In this case, we shall assume that the Maretts are living in States accommodation and pay no more than the 'fair rent' level. However, it must be noted that a significant proportion of families with children are housed in the private sector¹⁰ and may be subject to higher rent levels. As noted elsewhere, this means that families will use other components to make up the shortfall. The end result is that children are less well supported by the system.
- 6.32 If only one of the Maretts works on minimum wage for 37.5 hours a week, this would result in £218.55 take home pay. Income Support provides £432.31, which gives a total income before housing costs of £650.86 for this family of four, making the family £38.36 better off than they would be without work.
- 6.33 If one partner works full time and the other part time, that raises their take home pay by £104.90. As a result of this increase in earnings, however, the Income Support that they receive is reduced by £86.49 per week. This leaves the family better off by a further £18.41.
- 6.34 The reason why there is so little net benefit from the hours worked is that the household is already in receipt of all the disregards and tapers it is entitled to. Given that the additional part time work would incur some associated 'expenses' such as bus fares which could easily amount to £16 per week¹¹, it effectively

¹⁰ Social Security Data 46% of households with children in private sector housing.

¹¹ Bus fares from the East to St. Helier approx £3.20 per day.

means that the net additional income coming into the household could be £2.41 pence per week.

- 6.35 The Maretts have seen little significant improvement to their situation from the extra part time work. Mrs Marrett decides to work full time. Their combined take home pay is now £437.10 per week. Their Income Support entitlement drops to £252.13, providing a total weekly income of £689.23. The combined total of 75 hours work each week makes them better off by £76.73 than they were with neither of them working.
- 6.36 Are the Maretts poor? The After Housing Cost low income threshold for a couple with two children is given in Table 5 as £438 per week. When both the Maretts are working full time at the minimum wage, their combined take home pay is £437.10 per week as we have seen above. Income Support at £252 effectively covers their rent. Their total income puts them almost exactly at the low-income threshold after housing costs (AHC).
- 6.37 Full time work at the minimum wage is required if this family are to maintain anything close to a decent standard of living. However, any interruption to full time work, for example, should the children fall ill, will cause financial difficulties. Any time taken off work is unlikely to be paid and the Income Support system does not automatically provide support for a parent taking unpaid leave. Income Support is not designed to respond to instances of very short-term loss of earnings. In addition to losing income, the family will of course be subject to medical costs.
- 6.38 With both parents working full time some form of child care at either end of the school day is likely to be necessary. For example, the cost of breakfast club for one hour per day before school and two hours after school club, including transport is £117.50 per child, per week. For the Maretts, this totals £235 per week¹². **In this case, the Maretts would not receive support for childcare,**

¹² 2010 charges at Centre Point website

because the weekly cost of the childcare exceeds the gross wages of one parent. Full time work for both parents is, therefore, an unlikely option.

6.39 When considering Income Tax, the Maretts noted that the tax threshold for their family is £30,780. They recognise that they are earning £24,180, which is below the threshold. The money they receive from Income Support is exempt.

6.40 The Maretts' case shows that:

- **without adequate funding for the provision of childcare the financial benefit of both parents working is negated;**
- **This is the result of the combination of a low minimum wage with**
 - **Unrealistic disregards and tapers**
 - **Inadequate funding of childcare**
- **A standard working week on the minimum wage is insufficient to meet the criteria of the childcare component of Income Support.**

7. Jersey Income Distribution Survey 2009 / 10

7.1 *“At the moment we are living as a family in constant debt, but if it were not for buying most of our food from the out of date section at all of the supermarkets I really don't know if we could afford to, or want to live in Jersey where it costs so much to live here. If it were not for the safety and beauty of the Island for our children, I think we would be off at the drop of a hat.”¹³*

“[It is] very difficult to manage on state pension always having to dip into savings each year.”¹⁴

7.2 The Jersey Income Distribution Survey 2009/10 (JIDS 2009/10) contained a number of findings on household incomes which are relevant to this review of benefit levels. Of particular importance in discussing the alleviation of poverty are the following terms:

i. Median Income

This differs from the mean (average income), being the income of the middle, or 50th percentile household. The median household income is particularly useful where the distribution is skewed, as income distributions usually are. The median (equivalised) for households in Jersey, before housing costs (BHC), was £667 per week, and £522 after housing costs (AHC).

ii. Relative Low Income

Relative Low Income is defined as an equivalised household income below 60% of the median (See chapter 10.3). In 2009/10 this threshold was £400 per week BHC and £313 AHC.

¹³ Response to survey 130

¹⁴ Response to survey 262

7.3 The Income Distribution Survey gives the first indication of the relatively high cost of accommodation in Jersey as follows:

Table 2. Median equivalised household income by tenure

	BHC £ per week	AHC £ per week	% change
States, Parish or Housing Trust Rent	480	318	-34
Qualified Rent	601	406	-33
Non Qualified	630	433	-31
Owner Occupied – Without Mortgage	653	644	-1
Owner Occupied – With Mortgage	929	773	-17
All households	667	522	-22

Source: Table 8 JIDS 2009/10

7.4 Households living in States, Parish and Housing Trust rent accommodation, in qualified rental accommodation, and in non-qualified accommodation saw equivalised household income fall by around a third (34%, 33% and 31% respectively) once housing costs were taken into account.

7.5 In effect, housing costs account for a third of rental households' disposable income.

7.6 Further information on those households in Jersey below the relative low income threshold is provided in Table 3 below.

7.7 This shows that almost half (46%) of single pensioners and one quarter of pensioner couples are below the relative low income threshold after housing costs. Over half (51%) of single parents with at least one dependent child are also below the threshold.

Table 3. Percentage of Households in 'Relative Low Income' in Jersey by housing type

	After Housing Costs	Proportion of total households in Jersey
Single parent at least one dependent child	51	6
Person living alone (pensioner)	46	11
Person living alone (non-pensioner)	25	17
Single parent with all children over 15 years	10	3
Couple (both pensioners)	23	11
Couple at least one dependent child	15	21
Couple with all children over 15	11	6
Couple (one pensioner)	12	4
Couple (not pensioners)	10	18
Other	14	4
All household types	22	100

Derived from Table 12 JIDS 2009/10

- 7.8 In addition to the presence of these vulnerable groups in relative low income, it is significant that a high proportion (25%) of working age persons living alone in Jersey also fall below the low income threshold.
- 7.9 Furthermore, the Income Distribution Survey can also be used to give an indication of the depth of relative poverty of certain household types. For example, Table 4 below shows that over a quarter (28%) of single parents with at least one dependent child have an income lower than 50% of the median income, AHC. A similar proportion of pensioners living alone (25%) are also below this threshold of relative low income. Significantly, almost a fifth (19%) of working age persons living alone fall into this band, achieving less than 50% of median AHC.

Table 4. Percentage of each household type falling below given relative low income threshold, after housing costs.

	Below median	Below 60% median	Below 50% median
Single parent at least one dependent child	81	51	28
Person living alone (pensioner)	76	46	25
Person living alone (non pensioner)	60	25	19
Single parent with all children over 15yrs	57	10	8
Couple (both pensioners)	52	23	12
Couple at least one dependent child	43	15	7
Couple with all children over 15yrs	30	11	5
Couple (one pensioner)	35	12	10
Couple (not pensioners)	32	10	6
Other	49	14	9
All household types	50	22	13

Derived from Table 17 JIDS 2009/10

7.10 Since JIDS 2009/10 is based on a questionnaire covering all members of the household and includes all income, both earned and unearned, including pensions, benefits and Income Support, these figures might suggest at this early stage that:

- Either Income Support is set at levels, which do not lift these households above relative low-income thresholds; or
- Income Support is not being claimed in all cases.

7.11 The JIDS 2009/10 report gives an indication of how successful Income Support has been in alleviating poverty for a variety of households. Thus Table 5 shows that there has been a 12.5% reduction overall in the numbers of households below the relative low-income threshold. Significantly, there has been a reduction in the numbers of single parent households and pensioner households in relative poverty by around one third.

Table 5. Percentage change of each household type at “Relative Low-Income” in Jersey, after housing costs, 2002 and 2009/10 compared.

After Housing Costs	% change between 2002 and 2009/10	Proportion of total households in Jersey
Single parents at least one dependent child	-36	8
Person living alone (pensioner)	-29	12
Person living alone (not pensioner)	11	16
Couple (both pensioners)	-31	4
Couple with all children over 15.	45	7
Couple at least one dependent child	-32	20
Single parent all children over 15	-59	3
Couple (one pensioner)	-11	3
Couple (not pensioners)	34	18
Other	45	9
All households	-12.5	100

Derived from Table 23 JIDS 2009/10

A minus figure represents a reduction in the number of households.

- 7.12 Having said that, over two fifths of single parent households are in relative low-income along with a third of single pensioners and a quarter of pensioner couples.
- 7.13 The persistence of such high proportions of pensioners and of single parents in relative low income, after the introduction of Income Support, is worrying. It is especially so in the case of single parents who have been targeted for additional help in the design of the Income Support system.
- 7.14 This would also indicate that Income Support is failing as an anti-poverty programme for the elderly that supports saving for old age. Priorities must be set and agreed.
- 7.15 As discussed previously, the Minister for Social Security set aims within the report of P90/2007 to create a system that “enables people to avoid poverty”.

Clearly, if the specifically targeted areas of the scheme such as single parents are not achieving those aspirations, as evidenced above, the current system is failing in that regard,

- 7.16 That such failure sits alongside the lofty ambitions suggests that the scheme may be designed to a budget, rather than to meet the stated aspirations. Difficult decisions need to be made to confirm the position. Either more money needs to be made available or the aspirations of the scheme need to be re-defined.

Key Finding 1

The introduction of Income Support has reduced, by one third, the numbers of single parent and pensioner households in relative low income since 2002. However, significant proportions of these households remain below the current low-income threshold. These groups also show significant depth of poverty.

Recommendation 1

If Income Support is to achieve the policy aim of “enabling people to avoid poverty”¹⁵, the Minister for Social Security must undertake a fundamental overhaul of the Income Support system and its funding.

¹⁵ Quoted from report attached to “Draft Income Support (Jersey) Regulations 200-“ (P.90/2007)

8. Jersey Annual Social Survey 2010 (JASS 2010)

8.1 *“Got into difficulty after losing a well paid job over a year ago and has been a struggle since working now but only earning half as much.”¹⁶*

“Pay freeze for public sector employees has hit me badly. Prices rising but wages staying the same constitutes a pay cut. As a teacher contributing a great deal to Jersey, I feel under valued and am contemplating returning to the UK.”¹⁷

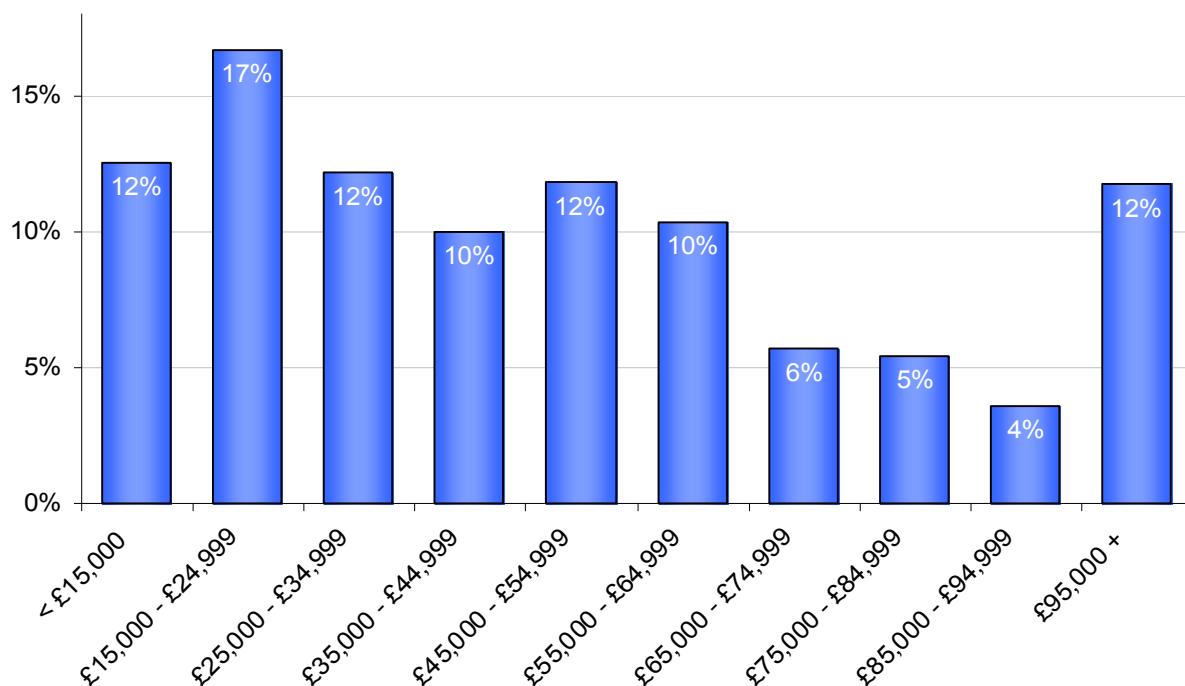
8.2 We now turn to examine the results of the JASS 2010 questionnaire on how well or otherwise households are coping with their financial burden in 2010. Around 3,200 households were selected at random by the States Statistics Unit to complete the survey in June and July 2010. The response from the public was extremely high, with over 51% of sampled households completing and returning the forms. This means that the results from the survey are both representative and accurate. The results are contained in Chapter 12 “Money Matters” of JASS 2010.

8.3 The first thing to note from this survey was that JASS was able to obtain responses from the full range of household incomes, as given below in figure 1.

8.4 It is noteworthy that two thirds (66%) of households with total annual income of less than £15,000 were comprised of one adult.

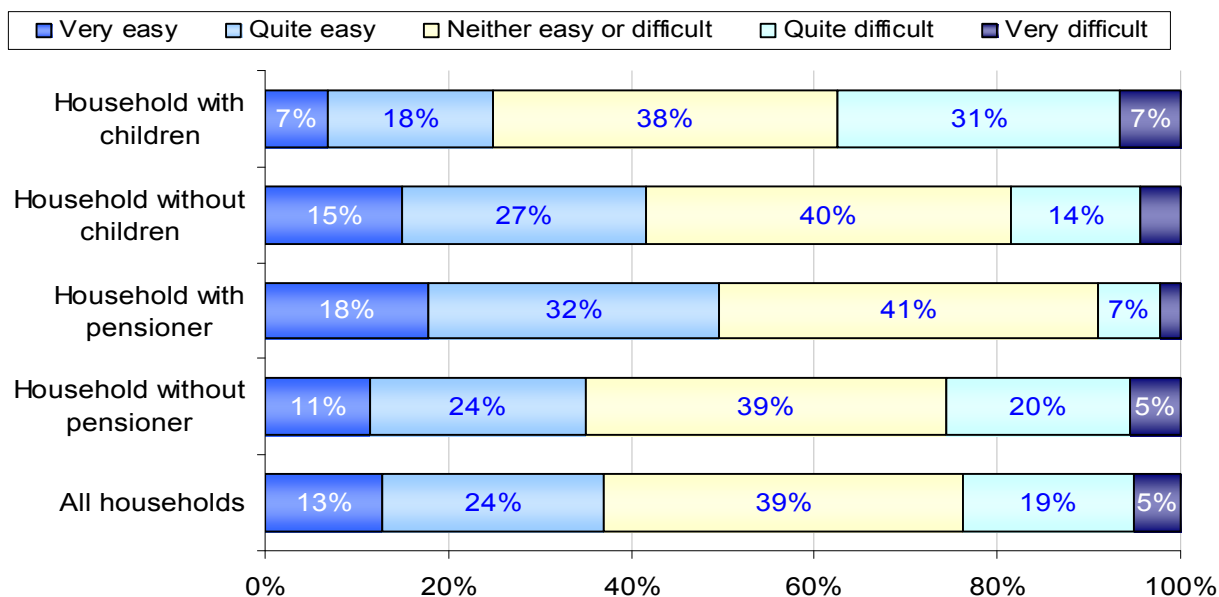
¹⁶ Response to survey 25

¹⁷ Response to survey 225

Figure 1. Approximately, what is your household's total annual income?

Source: Fig 12.1 JASS 2010

- 8.5 The responses to the question “How easy or how difficult do you find it to cope financially as a household?” were analysed in Figure 2, as follows:
- 8.6 This highlights a marked difference between households with children and those without. Twice the proportion (38%) of households with children report difficulties with coping financially compared to households without children (18%). The problems of childcare costs and the balance between work and child rearing responsibilities and its impact on household incomes is discussed in some detail later in this report.
- 8.7 Given the preponderance of pensioner households below the relative low-income threshold, illustrated in JIDS, the response obtained from pensioner households comes as somewhat of a surprise. Pensioner households, in fact, report the lowest (9%) figure for difficulty in coping financially.

Figure 2. As a household, how easy or difficult do you find it to cope financially?

Source: Fig 12.2 JASS 2010

8.8 This low rate may be explained in one of two ways;

- either pensioners are better at coping, that is, they do manage their budgets better and to some extent are prepared to “do without”; or
- whether they are coping or not, they simply do not complain about it.

8.9 Respondents to JASS were asked whether they or anyone in their household received Income Support¹⁸. The responses indicated that around half (49%) of households with a total income of less than £20,000 per year did include someone who receives Income Support, compared to about one in eight (13%) of those households with total income between £20,000 and £33,333.

8.10 A difference was apparent between pensioner and non-pensioner households; a fifth (20%) of households containing at least one pensioner reported receiving Income Support compared to about one in ten (11%) of non-pensioner households. However, there was no difference in the proportions of households with and without children which received Income Support.

¹⁸ Respondents may have used a different definition of a “household” to that used by the Social Security Department.

8.11 Comparing those households that contain someone who pays income tax/ITIS with those households that contain someone receiving Income Support showed that:

- around one in twenty (6%) households that have someone paying income tax/ITIS also contained someone receiving Income Support;
- Six out of ten households (59%) with no member paying income tax/ITIS contain someone who receives Income Support.

Table 6. As a household, how easy or difficult do you find it to cope financially?
Percentages

As a household, how easy or difficult do you find it to cope financially?	Receive Income Support		Pay income tax/ITIS		All
	Yes	No	Yes	No	
Very or Quite Easy	17	40	39	23	37
Neither Easy nor Difficult	39	39	39	41	39
Very or Quite Difficult	44	21	22	36	24
Total	100	100	100	100	100

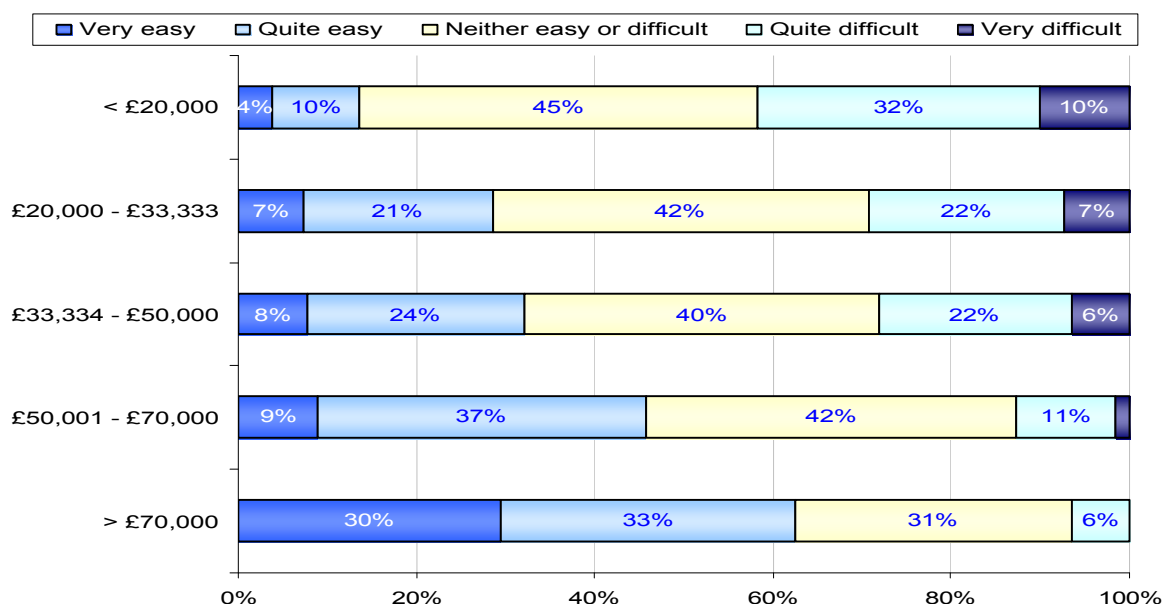
Source: Table 12.2 JASS 2010

8.12 More than two-fifths (44%) of households with someone receiving Income Support reported finding it difficult at some level to cope financially, compared with about a fifth (21%) of households not containing a person on Income Support. The reverse trend applies to those households who pay income tax. Only 22% of tax paying households find it difficult to cope compared with 36% of those households without a taxpayer.

8.13 Interestingly there is a reported overlap (6%) where households contain members who pay income tax and members in receipt of Income Support. The potential for overlap between those who pay Income Tax and Income Support is explored in greater detail in chapter 19 of this report.

- 8.14 Analysing the responses by equivalised household income shows that greater proportions of households in the lower quintiles find it difficult to cope financially, with more than two-fifths (42%) of those in the lowest quintile reporting it difficult to cope compared with around 6% in the upper quintile (see Figure 3).
- 8.15 Unsurprisingly, there is a clear inverse relationship between household income and the difficulty of coping financially. Those with the lowest incomes (below £20,000 per year) find it most difficult.

**Figure 3. As a household, how easy or difficult do you find it to cope financially?
By equivalised income quintile**



Source: Figure 12.4 JASS 2010

8.16 Impact of the recession

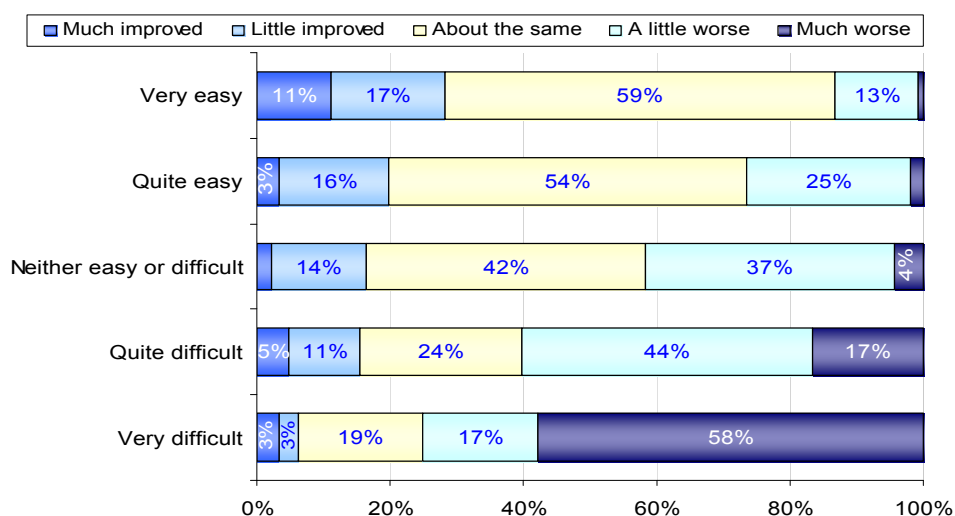
- 8.17 Obviously, Income Support has faced additional pressures over the past two years from the effects of the recession on the economy. Wages have stayed low whilst costs have gone up. Income Support has had to deal with increased pressure from the number of unemployed especially amongst the young.
- 8.18 Respondents were asked to compare their current financial situation with that one year previously. Overall, twice as many households (39%) said their situation

was a little or much worse, whilst almost one-fifth (18%) indicated that their situation was a little or much improved.

8.19 Figure 12.5 shows how people view their current situation compared to one year ago analysed in terms of how easy or difficult they now found it to cope financially:

- three-quarters (75%) of those who said that they found it very difficult to cope financially said that their current situation was worse than a year ago;
- three-fifths (61%) of those who said that they found it quite difficult to cope financially said that their current situation was worse than a year ago.

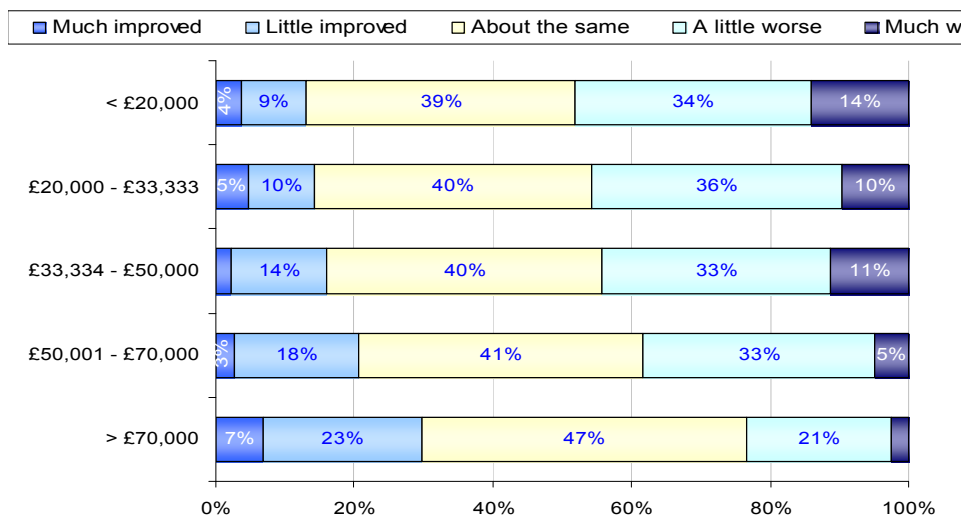
Figure 4. As a household, how easy or difficult do you find it to cope financially compared with the situation one year ago?



Source: Figure 12.5 JASS 2010

8.20 The proportions reporting that their current situation was a little or much worse than that a year ago were similar across all household types. When analysed by income, however, it is clear that with the exception of the highest earners in the top quintile, all households whether middle or low earners, are reporting similar levels of financial difficulty (at around the 40% level).

Figure 5. As a household, how easy or difficult do you find it to cope financially compared with the situation one year ago? By equivalised income quintile



Source: Fig 12.6 JASS 2010

Key Finding 2

Over two fifths of households in the lowest quintile and of those receiving Income Support report difficulties in coping financially.

Key Finding 3

With the exception of those households whose income is over £70,000 per year, at least two fifths of all households report that their financial situation is worse than it was a year ago. Of those who find it very difficult, 58% state that their financial position is much worse.

Recommendation 2

The Minister for Social Security must not allow the Comprehensive Spending Review to reduce benefit levels.

9. The Levels of Income Support

- 9.1 *“I only receive Income Support and find it very difficult to manage with what I get. Especially when it's been cold, trying to heat my house. I like the old system (payments) better. There are people I know that also find it very difficult to manage with the little money they get.”¹⁹*
- 9.2 The States of Jersey Income Support scheme is an income-related benefit, introduced in 2008, that provides financial support towards the costs of living, housing, medical needs and childcare. Carers can also receive support. It is the statutory framework to prevent financial deprivation in Jersey and provides assistance to those who are out of work and to those who are in work but have low incomes and need support.
- 9.3 In 2008, Income Support replaced 14 individual benefits that were administered by numerous agencies including the twelve parishes and Social Security. The benefit is now centrally financed and administered. The Income Support (Jersey) Law 2007 and subordinate Regulations and Orders provide the framework for the policy and delivery of the benefits.
- 9.4 It is a fundamental and crucial aspect of Income Support that it is not solely an ‘out of work’ safety net benefit. For example, in late January 2010, 44% of non-pensioner Income Support claimants had earnings. For some groups, Income Support is primarily an ‘in work benefit’: for instance, 83% of couples with children and 54% of lone parents receiving Income Support have earnings.
- 9.5 Even when Income Support is received by non-working families they are likely to have other sources of income. Ninety nine percent of pensioners on Income Support claim it alongside a pension, 47% of working age families with a disabled person claiming Income Support receive other benefits mainly from the Social

¹⁹ Response to survey 90

Security Department, and 44% of non-pensioner Income Support claimants who have no children or disability receive other benefits.²⁰

- 9.6 To understand the value of 'Income Support benefit levels' and to compare them to relative or minimum income standards, it is crucial to look not only at the basic Income Support income levels but at the overall income levels that families receiving Income Support achieve. For many claimants, Income Support supplements other sources of income, namely, pensions, earnings, interest from savings, maintenance payments etc. The interaction of Income Support with these other sources is explored in depth in later sections of this report.

²⁰ The DSS Data Report 2010.

10. The relationship between Income Support and relative income standards.

10.1 *“Although we live as a family and budget very well, it is simply because we have no other option. Utility bills I find are not so bad, although I would comment that rent is far greater than it should be compared with the UK.”²¹*

10.2 The prime aim of this report is;

- To assess whether benefit levels and structures are set appropriately in relation to the changing income distribution and the relative poverty standard.

10.3 The level of Income Support can be measured using the data in the Jersey Income Distribution Survey (JIDS) 2009 report that provides a measure of relative low income for 2009/10 based on a representative survey of private households in Jersey.

10.4 The relative low-income measure, contained in JIDS 2009, is set at 60% of median equivalised income in accordance with European Union (EU) approaches to poverty risk. The United Kingdom (UK) has also adopted this as a relative poverty²² standard as part of its targets to reduce child poverty. This report adopts the 60% of median income level throughout.

10.5 The standard reference for JIDS 2009/10 income equivalisation (using a Modified OECD scale) is that an adult couple living together has a weighting of 1.00 in the equivalence scales²³. This means that the Income Support rates for a couple can be compared to the relative low-income lines reported in the JIDS 2009/10 directly.

²¹ Response to survey 252

²² Relative Poverty - 'Relative Low Income' used locally

²³ see JIDS Report, Appendix definitions page 34

- 10.6 One of the dilemmas faced in setting relative low-income levels is how far to use the 'Before Housing Cost (BHC)' data as opposed to the "After Housing Cost (AHC)' data when seeking an income definition. In Table 7, the maximum level of rent payable by Income Support (calculated using the Social Security Department Income Support Calculator) is added to the AHC level and compared to BHC relative low-income levels. (This means that the BHC figure is inclusive of rent and is therefore the higher figure. AHC figures show the Income Support entitlement with rent removed and as such is the lower figure).
- 10.7 The BHC is complex because owner-occupiers, people renting and those lodging are all treated differently with regard to the accommodation component of Income Support. It is further complicated by differences between private and public sector rent levels and by family size. However, AHC is far more representative of the disposable income available to individuals or families and therefore more indicative of relative low income. In this report, after this initial discussion, only AHC figures will be used.
- 10.8 Income Support is made up of basic weekly components based on the family composition. Additional components exist for disability, childcare costs, medical care and other 'non-standard' elements of needs and the housing cost component.
- 10.9 Given the number of variable components it is not straightforward to compare Income Support levels to the relative low income threshold.
- 10.10 In Table 7 and throughout this report additional components for disability, childcare, medical and other needs²⁴ are ignored in order to compare the 'basic Income Support components' to AHC defined relative low income levels for householders. In Tables 7 to 11, the low-income threshold is converted into cash values which can therefore be directly compared with Income Support levels.

²⁴ Medical (impairment) components such as personal care level (1 to 3), mobility elements, clinical costs (levels 1 and 2) and Child Daycare components.

10.11 Table 7 shows the comparison of Income Support entitlement for a couple (when no other source of income is present) to the 60% of median equivalised income as an indicator of relative low income. After Housing Costs, the level of Income Support available appears to be below the relative low-income standard at around 74%.

**Table 7. Comparison of Low Income Thresholds 2009/10 to Income Support Rates
2009/10 for a couple**

Before Housing Costs				After Housing Costs		
Low income threshold (60% of Median)	Income Support + 1 bed house		Income Support + 1 bed flat	Low income threshold (60% of Median)	Income Support – ‘rent free’	
£400	£404	101%	£ 384	96%	£313	£231 74%

Source: Dr.M.Evans, Panel Advisor, Calculations from JIDS2009 and DSS Income Support Calculator²⁵

10.12 This means that a couple who do not receive Income Support and earn £400 per week before having paid any rent, is defined as being in relative low income (60% of median equivalised income). That same couple, after having paid rent, would need £313 for basic living expenses. Income Support recipients, who have no other income, would have only £231 (£12,012 annually). This is only about three quarters of what is required to escape the relative low-income threshold. That £231 is composed of 2 adult Income Support components (£92.12) and one household component (£47.11).

10.13 We have already seen (see Table 2) that those in rental accommodation will pay approximately a third of their income in rent. Unsurprisingly then, of those on low incomes who report financial difficulties, a significant proportion are in arrears with rent.

²⁵ Notes: IS calculated on October 2009-September 2010 rates.
Rounded to nearest £ and whole percentage point.
AHC IS assumes the couple are householders but charged ‘zero’ rent.
All IS calculations assume no other sources of income

**Table 8. Is your household currently in arrears for the following?
Of those for whom it was applicable, percentages**

	Yes
Rent	9
Mortgage	2
Parish rates	4
Electricity	6
Gas	3
Oil	2
Water	3

Source: Table 12.4 JASS 2010

10.14 Analysing the arrears data by household income shows that those in the lowest income quintile (below £20,000 per year) have higher proportions being in arrears for household bills (see Table 9).

**Table 9 Is your household currently in arrears for the following?
Percentages of those for whom it was applicable and stated Yes**

	< £20,000	£20,000 - £33,333	£33,334 - £50,000	£50,001 - £70,000	> £70,000
Rent	21	12	3	0	5
Mortgage	15	1	2	0	~
Parish rates	12	4	4	0	1
Electricity	15	8	4	1	1
Gas	12	1	2	0	0
Oil	10	2	2	1	1
Water	7	4	3	1	1

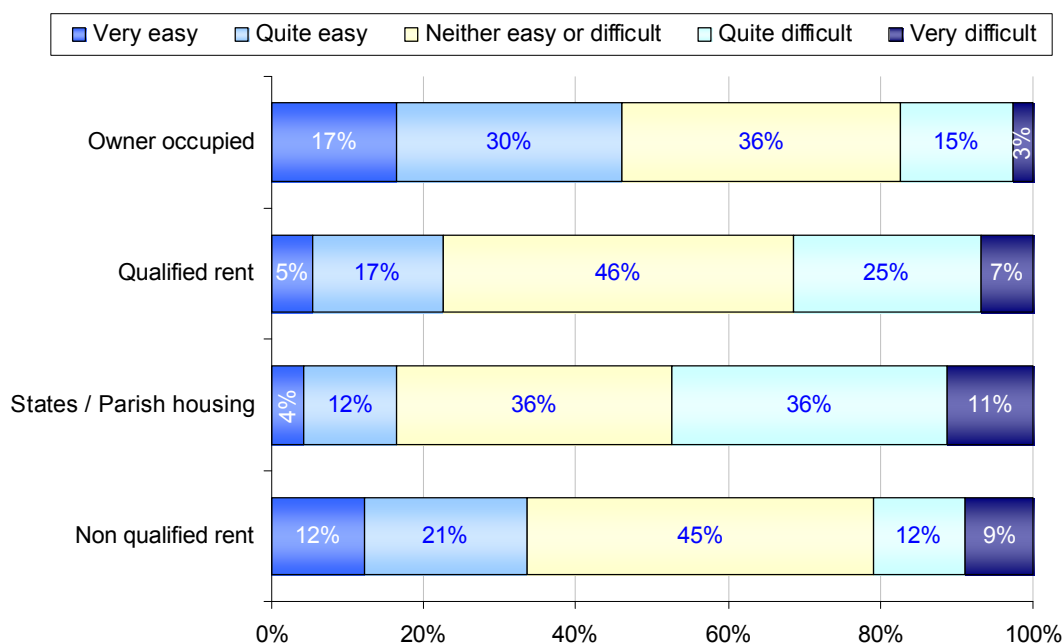
Source: Table 12.5 JASS 2010

10.15 One in five (21%) households in the lowest income quintile were in arrears for rent (of those for whom it was applicable) and between 10% and 15% were in arrears for their domestic energy bills.

It is also worth noting here that a greater proportion of households with a person in receipt of Income Support (14%) were in arrears for rent compared with 8% of households in which no one was claiming Income Support.

10.16 Turning to more general poverty indicators, we see that those in States or Parish housing report markedly higher levels of difficulty.

**Figure 6. As a household, how easy or difficult do you find it to cope financially?
By tenure**



Source: JASS 2010 fig 21.3

10.17 Analysing these results by tenure type (Figure 6) indicates that:

- almost half (47%) of households living in States/Parish housing said it was difficult to cope financially;
- around a third (32%) of households living in private rental accommodation reported it was difficult to cope financially;
- around a fifth (21%) of households living in non-qualified rental said it was difficult to cope financially;

10.18 These figures reflect the reality that the most needy sectors of our society tend to be housed in States rental accommodation. This is shown in JIDS 2009/10²⁶ where 45% of those in States housing are below the relative low-income threshold after housing costs.

Key Finding 4

High rental levels are a major contributor to financial hardship in Jersey. 21% of households in the lowest quintile report arrears for rent whilst between 10% and 15% were in arrears for their domestic energy bills.

²⁶ Jersey Income Distribution Survey Report 2009/10 table 25.

11. Family Composition, Income Support and risk of Low Income.

- 11.1 *“Having been made redundant in October 2009 and having to rely on Income Support to get by, I find the levels and amount paid very low to have to try and live and survive in my own Island. After taking my rent out of my benefit I find trying to live on £80 a week to fund food and bills impossible...”²⁷*
- 11.2 We now move on in Chapters 12, 13 and 14 to other family types and consider single people and families with children. JIDS 2009/10 provides breakdowns by household types but the typologies provided are not precise definitions of ‘families’ but groupings (for instance, recording the presence of children rather than the actual number of children in that family).
- 11.3 Similarly, the Social Security Department also provided a range of data on aggregate family types rather than specific definitions of families.
- 11.4 This has required us to use illustrative profiles in the following analysis. Income Support levels will be compared to a profile derived from re-weighted JIDS 2009/10 profiles so that they match. The following family types will be used:
- a) Single person;
 - b) Lone parent, 1 child;
 - c) Lone parent, 2 children;
 - d) Couple, 1 child; and
 - e) Couple, 2 children.
- 11.5 Contextual information on rents from the SSD Data Report 2010 will be referred to with a clear caveat that it is not matched exactly to the profile.

²⁷ Response to survey 244

Table 10. Comparison of Low Income Thresholds 2009/10 to Income Support Rates 2009/10 for a single householder

After Housing Costs		
Low income threshold (60% of Median)	Income Support AHC	% of Low income threshold
£210	£139	66%

Source: Dr.M.Evans, Panel Advisor, Calculations from JIDS2009 and DSS Income Support Calculator.

11.6 Single People

11.7 Table 10 shows that the Income Support level for single householders is below the AHC relative low-income threshold. Single householders on Income Support with no other income, only receive 66% of the low-income threshold (a relative poverty gap of around 34%) which means that they are even further below the minimum low-income threshold than a couple.

11.8 It is important to note that not all single people form their own households. Many, especially younger adults, may live with other members of the family. A previous HSSH Scrutiny review of Income Support, S.R.5/2009, focussed on the difficulties many 16 to 19 year olds living at home had in obtaining Income Support.

11.9 The Sub-Panel is please to note that the Minister has largely been successful in publicising the availability of Income Support for job seekers who are under 19 years of age.

11.10 However, there is a further problem that has increasingly been drawn to the Sub-Panels' attention. When the President of the then Housing Committee drew up the rent abatement scheme in 1990, it was decided that those aged under 25 would not be eligible.

11.11 This is still the case today. Most of those under 25 are not eligible to receive the rental component of Income Support unless they fit very specific criteria.

Unless they are responsible for a child or have previously been in care, they have to prove either:

- That they cannot possibly stay at home with their parents because of insurmountable problems; or
- That they have successfully lived outside their family home for at least 12 months.

11.12 The Panel questions whether this rule is still appropriate in today's society when young people are increasingly capable of living independently. This rule discriminates against under 25s and may be subject to challenge under the Human Rights (Jersey) Law 2000.

Key Finding 5

The HSSH Sub-Panel considers that the eligibility rules for the rental component of Income Support for under 25 year olds are discriminatory and may be subject to challenge under the Human Rights (Jersey) Law 2000.

Recommendation 3

The Minister for Social Security must review, as a matter of urgency, his policy on the eligibility for the accommodation component of Income Support of under 25 year olds.

11.13 In the JIDS 2009/10 equivalisation such additional individuals are given an equivalence weight of 33% (compared to a couple). Income Support also reduces their weekly entitlement by not awarding them the 'household' component and their resulting entitlement in 2009/10 is the adult component of £92.12 per week.

Table 11. Comparison of AHC Low Income Thresholds 2009/10 to Income Support Rates 2009/10 for a single non-householder²⁸

After Housing Costs		
Low income threshold (60% of Median)	Income Support non Householder	% of Low income threshold
£103	£92	89%

Source: Dr. M. Evans, Panel Advisor, Authors Calculations from JIDS2009 and DSS Income Support Calculator.

11.14 Table 11 shows that Income Support for non-householder co-resident adults is 11% below the low income threshold.

11.15 Families with Children

11.16 We shall now examine what relative living standard Income Support provides for families with children. Before looking at profiles by household type, it is worth outlining how underlying equivalence assumptions operate in the measurement of living standards in JIDS 2009/10 and comparing them to Income Support.

11.17 Table 13 shows how the two sets of assumptions treat the needs of additional members of the household and underlying economies of scale that arise from co-residence.

11.18 Income Support gives less weighting to the needs of a single person compared to a couple. It gives far higher relative weighting to single parents. A single parent with one child is weighted as more than a couple without children by Income Support. However, the Organisation for Economic Co-operation and Development (OECD) equivalence scale is lower.

²⁸ Notes: IS calculated on October 2009-September 2010 rates.
Rounded to nearest £ and whole percentage point.
All IS calculations assume no other sources of income

The additional incremental weighting for each child is also higher in Income Support (0.27) than in the OECD equivalence scale (0.2). Clarifying these differences in assumptions will help us interpret the comparisons that follow.

Table 12. Equivalence Assumptions of Modified OECD Scale and Jersey Income Support

Household composition	JIDS 2009/10 Modified OECD	Income Support (householders without rent)
Couple	1.00	1.00
Single	0.67	0.60
Single Parent with one child	0.87	1.04
Single Parent with two children	1.07	1.31
Couple Parent with one child	1.20	1.27
Couple Parent with two children	1.40	1.54

Source: Dr. M. Evans, Panel Advisor, Authors Calculations.²⁹

11.19 The higher weightings for single parents contained in the Income Support section of Table 12 reflect the aim of the then Social Security Minister to target support for this vulnerable group of households at the outset of Income Support. This is confirmed by the figures contained in Table 13 where support for single parent households provides a significantly greater proportion of the AHC relative low-income threshold than that for couples with children. Having said that, single parents still remain below the low-income threshold.

²⁹ Equivalisation in JIDS2009 uses the basis of a couple's needs (without children) as 1 and then adjusts (equivalises) incomes to be consistent to this. Table 4 does this for IS rates on the same basis.

So that the couple rate with householder component (but ignoring rent and medical/disability components) is £231.35 =1 and this means, by comparison that a lone parent with one child who receives £241.71 for the same component has an 'equivalised' needs levels (Compared to the couple with no children) of 1.04 and a lone parent with two children (£303.80 IS) would be 1.31 similarly.

The basic calculation is to divide the IS level for the family type by the underlying IS level for a couple with no children. This gives a clear indication of the weighting of IS needs and how it compares to the poverty/low income profiles in JIDS.

Table 13. Comparison of AHC Relative Low-Income Thresholds 2009/10 to Income Support Rates 2009/10 for Families with children.

Lone Parent					
One Child			Two children		
Low-Income Threshold	Income Support	%	Low-Income Threshold	Income Support	%
£272	£242	89%	£ 335	£304	91%
Couple Parents					
One Child			Two children		
Low-Income Threshold	Income Support	%	Low-Income Threshold	Income Support	%
£ 376	£293	78%	£438	£356	81%

Source: Dr. M. Evans, Panel Advisor, Authors Calculations from JIDS2009 and DSS Income Support Calculator. These tables relate to households in which Income Support is the only source of income

Key Finding 6

The basic components of Income Support are currently set at rates that are well below the relative low-income threshold for a wide range of household types.

Recommendation 4

The Minister for Social Security must bring a report to the States outlining his targets for more closely aligning Income Support rates with the low income threshold over a measured timescale.

12. The relationship between Income Support and minimum income standards.

- 12.1 *“We try and manage our finances to ensure we always have a roof over our head, food on the table and clothes on our back. As parents we always go without to ensure that our son doesn't. We basically don't have a social life and do without new clothes...”³⁰*
- 12.2 In the late 1990's and early 2000's, the Social Security Department commissioned research by the Centre for Research in Social Policy (CRSP) at Loughborough University. That work produced a range of costed minimum living standards for Jersey, the last of which was assessed in 2002.
- 12.3 The Research method was based on a “basket of goods” approach to set minimum income standards and as such could be said to represent an absolute rather than a relative benchmark for minimum living standards. Given the complex nature of the accommodation sector in Jersey, the standards did not attempt to include housing costs.
- 12.4 This minimum income standards approach provides an alternative, based on an assessment of needs, to the relative low-income threshold. Currently, the 2002 standards are the only ones available for use. Up-rating the 2002 minimum income standards using the inflation indices produced by the Statistics Unit for the purposes of this report is shown in Table 15.
- 12.5 The 2002 minimum income standards, set according to a basket of goods and services agreed between 1998 and 2000, have been adjusted upwards to reflect price inflation to show the cost of that set of goods and services at today's prices.

³⁰ Response to survey 150

Table 14. Up-rating Factors 2002-2009/10.

	Factor	% Increase
Retail Price Index		
All items	1.308	30.8%
Excluding Housing	1.288	28.8%
Low Income RPI		
All items	1.296	29.6%
Excluding Housing	1.284	28.4%

Source: Calculations provided by States of Jersey Statistics Unit

- 12.6 Two price inflators are shown in Table 14 – ‘All items RPI’ and ‘Low Income Retail Price Index (RPI)’ indices.
- 12.7 In Table 15, the Low Income RPI has been used to uprate the minimum income standard. This provides a more accurate estimate of inflation in prices to those on low incomes. Such individuals may be unable to take advantage of lowest prices through bulk purchase or have reduced access to out of town supermarkets with keenest prices.
- 12.8 Adopting a simplified approach with only ‘basic’ Income Support components, results in a limited set of illustrative ‘family types’ as given in the published Tables in the 2002 CRSP reports, shown in Table 15.
- 12.9 The comparisons in Table 15 suggest that the basic levels of components in Income Support are around 93% of the up-rated minimum standard for a single person and 98% for a couple with no children. However, this falls to 82% for a couple with two children.

Table 15. Comparison of 2009/10 Income Support Rates and Up-rated Minimum Income Standards (MIS).

Household	2002 MIS	2009 Up rated MIS	Income Support level	% of Minimum Income Standard
Single Person	£117	£150	£139	93%
Couple with no children	£183	£235	£231	98%
Couple 2 children (aged 7 and 11)	£339	£435	£355	82%

Source: Dr. M. Evans, Panel Advisor, Calculations from CRSP report 2002 and Table 6.

12.10 Taken at face value, these results would seem to indicate that the assumptions about basic living costs for adults, contained in Income Support components, are quite close to those built into the CRSP minimum income standards.

12.11 However, the greater shortfall between CRSP minimum standards and Income Support levels for a family with children, suggests a real difference in underlying assumptions about children's living standards. Despite the additional Income Support weighting given to families with children, indicated in Table 12, it appears that families with children are worse off.

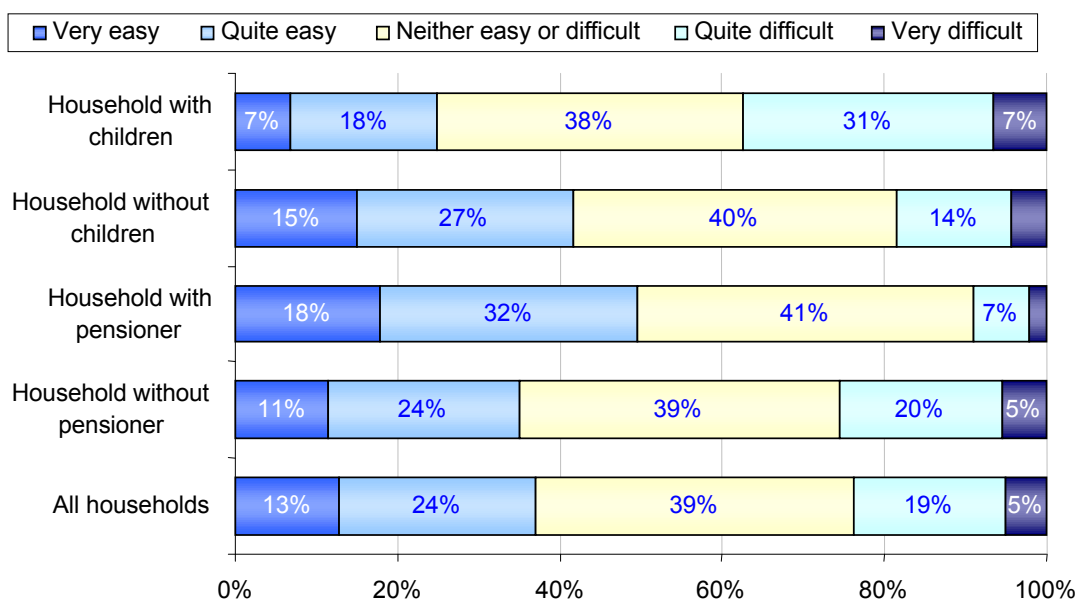
12.12 Further support for this is to be found in Figure 7. This compares households with and without children and shows that a larger proportion (38%) of households with children find it difficult, quite difficult or very difficult to cope financially compared with households without children (18%).

12.13 Furthermore, there may be significant differences in patterns of consumption for low income families since 2002. These must be borne in mind when interpreting the results in Table 15. For instance, treatment of charges for General Practitioner (GP) visits has changed significantly with the introduction of Income Support, which removed free access to GPs obtained by some through the

Health Insurance Exemption (HIE) scheme. GP charges are examined in Chapter 21 of this report.

12.14 However, this early analysis suggests the need for further research of the position of families with children in relation to low income.

Figure 7. As a household, how easy or difficult do you find it to cope financially?



Source: Fig 12.2 JASS 2010

12.15 Further on in JASS 2010, in the section headed 'Spending - difficulties paying for household items' we find a similar difference between households with and without children.

12.16 As Table 16 shows, around one in ten (11%) households said that they had difficulties keeping their house adequately warm because of a shortage of money. About a sixth (17%) said they found it difficult to replace furniture or electrical appliances, whilst almost a quarter (23%) said that they had difficulties paying for a holiday away from home once a year.

Table 16. Does your household have difficulties paying for the following because of a shortage of money? Percentage answering Yes, by household type

	Household with children	Household without children	All households
Keeping your home adequately warm	13	9	11
Having a holiday away from home once a year	35	19	23
Replacing any worn-out furniture	27	13	17
Replacing or repairing electrical appliances	22	13	16

Derived from Table 12.7 JASS 2010

12.17 Households with children had the greatest proportions reporting difficulties for paying for each of these items, notably around a third of such households said they have difficulties paying for a holiday away from home once a year and around a quarter reported difficulties paying to replace furniture or electrical appliances.

12.18 In examining other social deprivation markers, similar patterns emerge. Those in the lowest quintile, those in receipt of Income Support and those in States or Parish rental accommodation, report high levels of difficulty.

12.19 It is significant, however, that households with children report high levels of difficulty in several sections. Thus, 24% of those living in households with children report difficulties saving compared to 12% of those in households without children.

Similarly, comparison of those households with and without children found that more than 10% of households with children had gone without clothing for adults or buying presents compared to 4% to 8% of households without children.³¹

Key Finding 7

Despite the additional weighting in the original design of Income Support given to families with children, the evidence contained in this chapter indicates increased financial difficulties for these households.

Recommendation 5

The Minister for Social Security must address the role of Income Support for families with children, in conjunction with the development of the Strategic Framework for Children and Young People.

³¹ Page 96 JASS 2010

13. Accountability and Transparency Issues.

13.1 *“Very upset at the fact of having to fill in a booklet for Income Support at the age of 65 and being asked why I want to cut down on my working hours. I have worked all my life and bought up five children on my own.”³²*

“What is not helpful, is when a father decides to pay [maintenance] one week, then not the next, ... When I was with welfare, they just asked for a statement to confirm no payment and they made up my money. Why can't Income Support be more flexible? There is not enough communication [from the Social Security Department]..., not letting me know why. I have to phone regularly to ask why, which again cost me money. Why can't there be a free phone?”³³

13.2 This chapter deals with four aspects of the Income Support system, which are related to issues of transparency and accountability:

- i) a constant theme of many contributors to this review is that claimants find the system difficult to understand and complain about the lack of clear information on Income Support;
- ii) by rolling 14 separate benefits into one the Minister has reduced the accountability in the system, which in turn makes it difficult to analyse how effective the system is;
- iii) more accurate assessment of needs and accurate targeting; and
- iv) the issue of take-up which is a major problem for all benefit systems, especially those which are means tested.

³² Response to survey 247

³³ Response to survey 206

- 13.3 A previous HSSH report, S.R.5/2009, has highlighted the problems associated with clearly communicating to applicants how Income Support works and what their entitlement is. For example, the letter informing applicants of the level of their Income Support award does not give a breakdown of the components. Recipients cannot therefore check that their circumstances have been accurately recorded.
- 13.4 Furthermore, there is a simple computer-based Income Support calculator which has been made available to some stakeholders (CAB, St Helier Community Services, and the HSSH Scrutiny Panel.) This calculator is relatively simple to use and should be made available to clients. Indeed, the UK makes its calculator available and easily accessible on numerous web pages including ‘Direct.gov.uk’³⁴

Key Finding 8

Applicants for Income Support do not receive sufficient information to allow them to understand how their benefit is made up.

Recommendation 6

The Minister for Social Security must ensure that applicants for Income Support are given a breakdown of their Income Support components in the letter notifying them of their award. The Income Support calculator must be made available to the public by the Social Security on its web site and in the department.

- 13.5 The 14 different benefit systems, which formed the basis for the Income Support System, were funded separately. The cost to the Island of each benefit was known and recorded. Today, there is no separation of the various components.
- 13.6 The Social Security Report and Accounts 2009 records Income Support in ‘Statistical Appendix 4’ with only one line showing the total expenditure on Income Support for 2008 as £70,832,000 and 2009 as £83,286,000. The document is reproduced in appendix 1 of this report.

³⁴ http://www.direct.gov.uk/en/Diol1/DoltOnline/DoltOnlineByCategory/DG_172666

13.7 There is clearly a need to provide a regular report schedule on Income Support, including a profile of beneficiaries and claims in payment. For the sake of transparency, accountability, analysis and future policy making, figures should be available on the cost to the Island of every component in the Income Support scheme. This would allow monitoring of the effectiveness of Income Support by all stakeholder groups. (States Assembly, Scrutiny Panels, CAB, Age Concern etc.)

Key Finding 9

There is clearly a need to make public a regular report schedule on Income Support, including the cost of each component.

Recommendation 7

The Minister for Social Security must publish the cost of each component of Income Support in his Department Annual Report and Accounts.

13.8 As we have seen in JIDS 2010, Jersey has adopted the 60% of median equivalised household income as the relative low-income threshold, as we have in this report. Table 12, however, reveals that a different set of assumptions and weightings has been used to design the Income Support system. If the Income Support System is to be used to target the needs of particular vulnerable groups, then we need to agree;

- A set of standards across departments for the methodology used in surveying and assessing those needs; and
- an internally agreed Jersey standard for the measurement of the performance and targeting of the benefit system.

13.9 Decomposition analysis of how effective Income Support is in supporting various groups such as:

- low waged households

- those receiving pensions or incapacity benefits, and
- parents with young children

would give a better understanding of the effective and applied levels of benefits.

13.10 A more detailed analysis of JIDS 2009/10 to examine the interaction between Income Support and earned or other income would greatly assist in assessing the performance of Income Support across the board. Further analysis of the interaction between earned income, Income Tax and Income Support is explored in Chapters 18 and 19 of this report.

Key Finding 10

The effectiveness of Income Support at reaching vulnerable groups has not so far been analysed.

Recommendation 8

The Minister for Social Security should agree, across departments, a set of standards for assessing the needs of particular vulnerable groups and for the measurement of performance in targeting those needs.

13.11 Under-claiming of benefit is a very significant issue in measuring the performance of any benefit scheme³⁵. Insufficient or unclaimed take up does not provide a system with an effective reach, leaves individuals from vulnerable groups unprotected and does not adequately reflect the need in the community.

13.12 Many who are entitled to Income Support will not claim it for a number of reasons, some of which are listed below –

- they do not realise they are entitled;
- they do not consider it worth claiming;

³⁵ 'Public Finance' 3rd February 2011 – Poorest are losing out on welfare benefits.

- they are put off by the stigma that attaches to it or to the welfare system that preceded it; or,
- they are put off by the application form.

13.13 The Panel recommends an analysis of JIDS 2009/10 to assess 'take-up' rates for Income Support. Such analysis should include assessment of the factors that relate to non-take-up and should assess how far full take-up would alter profiles of 'poverty headcounts' and 'poverty gaps' (the number above and below relative income lines and the income shortfall that those who are below it have).

13.14 These two additional pieces of applied analysis from the JIDS 2009/10 would assist in a clearer picture of the effective income levels that are delivered by Income Support. There appears to have been no research into this area. This is clearly problematic.

Key Finding 11

There is no evidence that research has been conducted into the under-claiming of Income Support.

Recommendation 9

The Minister for Social Security should analyse the data contained in JIDS 2009/10 and other sources to assess take-up rates for Income Support.

14. Income Support and the Housing Market

14.1 *“It is very hard to live in Jersey specially because the rents are so high. I’m a single mother with 2 daughters. One is 2 years old and the other is 16 years old. We live in the same bedroom because I can’t pay for a 2 bedroom flat. I asked housing for help because I got my quals but they told me to wait 18 months.”³⁶*

14.2 Jersey is a densely populated small island with several factors that contribute to a tight housing market with:

- high prices;
- a rising population but with household formation rising more quickly;
- high per-capita GDP;
- structural land-use restrictions from spatial planning policy; and
- very limited subsidised domestic building programmes.

14.3 House prices are high relative to the UK:

“House prices in Jersey in the 4th quarter of 2008 were 132% above those in the South West of England and 52% higher than in Greater London.”³⁷ and house price inflation in recent years has been high, prior to the financial crisis: “Average house prices in Jersey rose by 53% between 2002 and 2008.”(ibid).

14.4 A minority of Income Support claimants, around 9%, mostly elderly, own their home (either outright or with a mortgage).³⁸ For these claimants there is obviously no rental component available. Income Support provides a limited contribution to owners for their accommodation costs to a maximum of £11.13 which reflect liabilities for buildings insurance, ground rent or leasehold charges,

³⁶ Response to survey 125

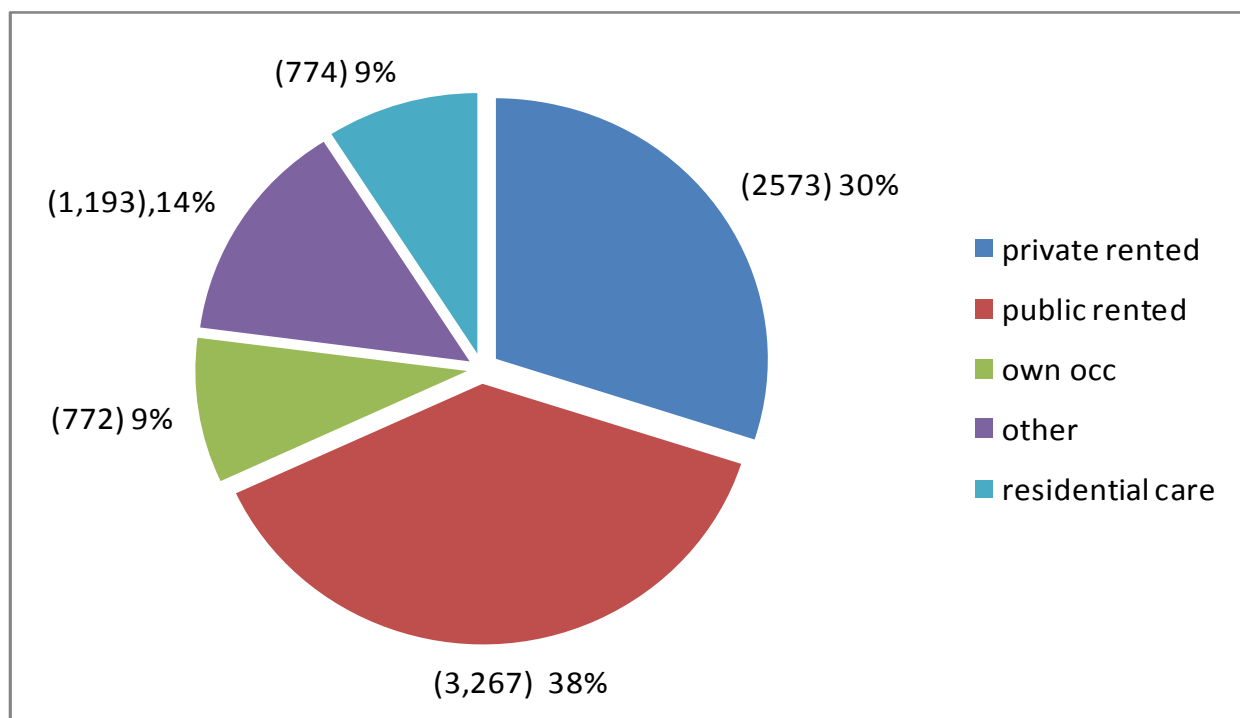
³⁷ Cambridge Centre for Housing and Planning Research (2009) A Review of Social Housing in Jersey. Main Report (the Whitehead Report), (page 14) July 2009, Cambridge: CCHP University of Cambridge,

³⁸ DSS Data Report 2010'

maintenance, parish rates and other housing costs (with the exception of mortgage payments). Such payments will not be considered in this analysis.

14.5 Overall, Figure 8 shows that over two thirds (68%) of households claiming Income Support live in rented accommodation - 30% in private and 38% in public rented accommodation. The issue of rent is paramount in appreciating both the extent of coverage and the level of Income Support.

Figure 8. Tenure of Income Support Claimants



Source: Report of Panel advisor Dr. M. Evans

14.6 It comes as no surprise that the largest portion of Income Support payments are to householders in States rental accommodation, based on household income as follows:

Table 17. Median equivalised household income by tenure

	BHC £ per week	AHC £ per week	% change
States, Parish or Housing Trust rent	480	318	-34
Qualified rent	601	406	-33
Non qualified	630	433	-31
Owner occupied – without mortgage	653	644	-1
Owner occupied – with mortgage	929	773	-17
All households	667	522	-22

Source: Table 8 JIDS 2009/10

14.7 States housing tenants are characterised by:

- low incomes: 80% of tenants are in the bottom two quintiles, with household incomes of less than £28,000 per annum, and 64% of States tenants are in receipt of Income Support;
- high proportions of pensioners (32%) and single parents (13%). More than two in five (44%) of all States tenants are separated, divorced or widowed women;
- lower levels of economic activity compared to other tenures: over half (55%) of States tenants are economically inactive. Nearly half of the economically inactive (44%) are retired, over a quarter (27%) are either homemakers or in full time education and more than a fifth (22%) are long term sick or disabled.

14.8 Consequently, the overwhelming majority of social housing tenants are likely to be lifelong renters. Even among those tenants who leave States housing every year, nearly 80% continue to rent, moving into care, to the Cottage Homes, to the Housing Trusts or into the private rental sector. Only 10%, or some 20 tenants each year, move to owner-occupation, reflecting the gap between the average levels of earnings among States tenants and house prices in Jersey.

14.9 The large percentage of social rented houses rented by low income families leads to significant proportions of the total rent being paid through the previous rent abatement scheme and now through the accommodation components of Income Support. Data released by States Housing Department to Scrutiny gives the proportions of total rental income attributable to rent abatement prior to 2008. This is shown in Table 18 below.

Table 18.

Public Sector Rent Abatement Scheme Statistics 1990-2007

Year	Gross Rental Income £' million	Rent Abatement £' million	Net Rental Income £' million	Abatement as a % of Gross Rentals	Tenants without an Abatement
1990	12.7	6.5	6.2	51.18%	
1991	14.4	7.1	7.3	49.31%	
1992	16.9	9.0	7.9	53.25%	
1993	18.3	10.0	8.3	54.64%	
1994	19.4	10.4	9.0	53.61%	
1995	19.8	10.5	9.3	53.03%	10%
1996	20.6	10.8	9.8	52.43%	11%
1997	21.3	11.2	10.1	52.58%	13%
1998	22.7	11.8	10.9	51.98%	14%
1999	24.1	12.3	11.8	51.04%	15%
2000	26.2	13.3	12.9	50.76%	15%
2001	27.4	13.9	13.5	50.73%	15%
2002	29.4	15.3	14.1	52.04%	15%
2003	31.0	16.3	14.7	52.58%	
2004	32.0	16.2	15.8	50.63%	
2005	32.4	16.1	16.3	49.69%	
2006	32.1	15.2	16.9	47.35%	26%
2007	32.1	14.8	17.3	46.11%	

Source: States of Jersey Housing Department data

14.10 Overall, the proportion of total gross rental income to the States Housing Department attributable to rebates has been consistently above 45%. In 2007, the final year of the abatement scheme prior to Income Support, abatement accounted for 46% of gross rent. Around three out of every four tenants were in

receipt of abatement. A similar proportion of tenants are today in receipt of the Income Support accommodation component.

- 14.11 Such levels of support for social housing can be compared with those in the private sector, where an increase in demand over supply has led to high levels of rent inflation in recent years. With little new States housing stock, the private rented sector has also had to respond to demand from those unable to access social housing along with those delaying or deferring purchase of their own homes.
- 14.12 Again, prior to 2008, the previous rent rebate system enabled rent subsidies to be paid to those on low income. Table 19 shows the rising level of expenditure that resulted in the period of 1990-2007. In nominal terms, rebates for private rents grew enormously, by over 6.6% per annum (over one hundred and twelve times in total) from £0.8million in 1990 to £9.1 million in 2007. The cost of supporting low-income tenants in the private sector now has to be met by the Income Support system.
- 14.13 No comparable figures for post 2008 payments by Income Support have been made available to the Panel for this report. Clearly, it is more difficult to assess how much Income Support is paid towards rent since Income Support is a cumulative calculation that includes rent as one of many components. Any income from other sources is then deducted to produce the entitlement, some or all of which may go towards paying the rent.
- 14.14 However, the Panel believes that accurate figures for the sums which are paid to the States Housing Department and to private landlords are essential if we are to understand the role of Income Support in housing finance and to any future development of social housing policy.

Table 19.**Rent Rebates to Private Sector 1990-2007**

Year	No Claimants at Year End	Costs £' million
1990		0.08
1991	381	0.56
1992	690	1.17
1993	1,086	2.36
1994	1,380	3.34
1995	1,600	3.97
1996	1,750	4.40
1997	1,770	4.89
1998	1,735	5.19
1999	1,731	5.27
2000	1,708	5.55
2001	1,671	5.99
2002	1,769	6.50
2003	1,905	7.42
2004	1,961	8.15
2005	1,988	8.52
2006	2,034	8.47
2007	2,025	9.11

Source: States of Jersey Housing Department

Key Finding 12

Accurate figures for the sums which are paid to the States Housing Department and to private landlords are essential for the development of future housing policy.

Recommendation 10

The Sub-Panel recommends that the Minister for Social Security makes public accurate figures of gross annual payments of the accommodation components of Income Support.

15. Funding Social Housing: A Failing System.

15.1 *“The price of housing and rental is at least three times its [real] value, yet wages are below the rest of the UK.”³⁹*

“Rent, both housing and private rents, are extremely high and its impossible to buy your own home unless you're a very high earner.”⁴⁰

15.2 Public provision of social rented accommodation, primarily through the States of Jersey Housing Department but with a small number of Housing Trusts, is based on a financial model that is peculiar to Jersey.

15.3 There is no loan debt on Social Rental Housing in Jersey and rent levels are set to cover three main elements:

- (i) the costs of direct administration and management costs;
- (ii) the costs of household rent subsidies (previously rent rebates but now the accommodation component of Income Support); and,
- (iii) to make a contribution to the States financial budget.

15.4 Deputy Power, when Minister for Housing, described this model as inadequate. As Professor Whitehead states in her report:

“At the present time income and expenditure on States Housing match one another in that there is a ‘surplus’ of £22m over direct operating costs but a similar amount is being expended by the States through the contribution to investment (£3.55m) and the payment of Income Support to States tenants (£19m).”

³⁹ Response to survey 250

⁴⁰ Response to survey 91

*Thus taken together, States Housing could in some sense be said to wash its own face. However this funding model does not enable long term investment in the existing stock.*⁴¹

- 15.5 The resulting rent levels for States rental accommodation are described as ‘fair rents’ but the level of such rents does not cover the extensive costs of maintenance, major repair or refurbishment of current stock. As such, these social ‘fair rents’ are completely divorced from the principles of private market-based rent setting. States social rental levels are theoretically set at around 90% of market levels. However, they are only reviewed intermittently and in practice sometimes drift to lower rates.
- 15.6 The accommodation component, as with all components of Income Support, is means tested. Relying on means testing for the provision of social assistance as the basis of providing ‘affordable housing’ for low income households is problematic and a clear weakness in overall housing finance policy.
- 15.7 There is a point at which providing accommodation subsidies to low income tenants is less efficient than the reduction of rents at source. It is clear that, without some policy reconsideration, Jersey is approaching that point at some velocity, as recent increases in housing inflation are double overall price growth⁴².
- 15.8 The Whitehead Report indicated that there are significant structural problems in the social housing finance policy, causing restricted access to affordable social rented housing. While this remains unresolved, it puts great pressure on tenants receiving Income Support subsidies in the private sector.
- 15.9 Given that the role of the Housing Department in the provision of social rented housing is under review, following the findings of the Whitehead Report, it is an

⁴¹ (Cambridge Centre for Housing and Planning Research (2009) p. 18).

⁴² Housing costs rose by 4% over the year to September 2010 (Jersey Retail Prices Index September 2010, States of Jersey Statistics Unit). Private housing rents rose by 36% (averaging 4.5% pa) between 2002 and 2009 (Jersey House Price Index 2009, Jersey Statistics Unit).

ideal time to ensure that the financing of social housing provides affordable housing whilst reducing the burden on Income Support.

- 15.10 Clearly, there is a need for structural change to determine where direct funding is required for the construction, management and maintenance of social rented housing. Currently means-tested rent subsidies are being used to meet that requirement.

Key Finding 13

Clearly, there are significant structural problems in the social housing finance policy, causing restricted access to affordable social rented housing. It puts great pressure on the tenants receiving Income Support subsidies in the private sector.

Recommendation 11

The Minister for Social Security must work with the Ministers for Treasury and Resources and Housing to ensure that the mechanism for financing social housing is separate from the provision of means-tested Income Support benefits.

16. Income Support and Private Sector Rental

16.1 *“Is very hard to live in Jersey specially because the rents are so high. I'm a single mother with 2 daughters. One is 2 years old and the other 16 years old. We live in the same bedroom because I can't pay for a 2 bedroom flat. I asked housing for help because I got my quals but they told me to wait 18 months. I went to the Housing Trust and they put me on the list.”⁴³*

“I am not happy with the housing situation in Jersey. We had to go private rented because we were not offered a social house. Our flat (2 bed) is very damp and we have had several problems, electricity, leaking etc.. But if we wanted to move we would have to find new tenants before we could move or pay for Slomans to find them. We then need to pay hundreds of pounds in paperwork fees. All this to live in a flat that we pay £1,000 a month for and it's not even healthy to live in.”⁴⁴

16.2 For private rents, covering 100% of rent at the margins can lead to market distortions: put simply, landlords can set rents and increase them knowing that the bill will be picked up by the Social Security Department.

16.3 Rules in Income Support ⁴⁵ set the ‘Accommodation Component’ to counter market distortion. At present, the component matches the ‘fair rent’ policy of the Minister for Housing. Whilst this level is adequate for States Social Housing and Housing Trusts, unfortunately if not correctly balanced within the Housing Trusts and private sector, this could lead to problems with affordability. This applies particularly where the approach is not flexible enough to reflect and respond to the underlying market shortage and high accommodation costs.

⁴³ Response to survey 125

⁴⁴ Response to survey 243

⁴⁵ Income Support (Jersey) Law 2007, Article 5 Components and rates of Income Support 3 (a) a rate in respect of the reasonable costs of the household.

- 16.4 Since the introduction of Income Support, the Income Support accommodation component rates have been set at the same level as the Housing Department's 'fair rents'. These are nominally set at a maximum of 90% of the market rate. The Ministers for Social Security and Housing currently work co-operatively to ensure parity. However, the Income Support law requires component levels to be reviewed at least once a year but there is no established mechanism to require the two Ministers to agree on the 'fair rent' level.
- 16.5 A further problem associated with rising rents is that they increase the number of tenants in the private sector who have rents that are deemed too high to be covered in full by the Income Support accommodation component.
- 16.6 High and rising rents would place a significant pressure on Income Support without the existing ability to set maximum rates for the accommodation components to match 'fair rent' levels. However, capping the level may lead to significant proportions of private tenants on Income Support having their rent only partially covered.
- 16.7 Setting accurate and reasonable limits for accommodation rates relies on high quality information on both 'stock rents' and the price of 'new lettings' in the private and public sector.
- 16.8 If clients only have their rent partially covered, it means that they are forced to use non-rental components in order to pay their rent. This reduces the overall effectiveness of these other components. Partial coverage of private sector rents will take households further below the low-income threshold.
- 16.9 There is a significant proportion of Income Support claimants who rent privately and whose rent exceeds the 'fair rent' levels. Table 20 shows the extent to which this occurs. 46% of couples with children, 35% of lone parents and 17% of pensioners in the private sector do not have their full rent covered by their Income Support accommodation component. Comparable levels in States Social Rented Housing are at 1% or less.

Table 20. Tenure of Income Support and likelihood of reduced rent coverage.

	Lone Parents		Couples with Children		Pensioners	
	No.	% with partial rent coverage	No.	% with partial rent coverage	No.	% with partial rent coverage
Private Tenancy	524	35%	293	46%	581	17%
States Tenancy	626	1%	264	1%	1199	<1%

Source: SSD Data Report 2010 Tables 6 a), b) c) & d)

16.10 As a result of the accommodation component being applied to the private sector, there is considerable danger to living standards and affordability of housing for low-income families. These components may well be set too low and revised too slowly to provide a balanced set of priorities that allow affordability at the same time as discouraging under-occupation.

Key Finding 14

The application of the accommodation component of Income Support set at the fair rent level to those households renting in the private sector may result in increased hardship especially for families with children.

Recommendation 12

The Ministers for Social Security and Housing must establish a mechanism for reviewing fair rent levels at regular intervals.

16.11 The current savings requirements imposed by the Comprehensive Spending Review could place the funds available to maintain the accommodation component at 'fair rent' levels at risk. An approach that puts undue emphasis on capping Income Support subsidies would be unfair. It would also lead to more tenants on Income Support receiving less assistance with their rent and this would significantly erode the effective level of Income Support rates.

16.12 The consequences of any reduction or freezing of the accommodation component combined with an increase in Housing Department 'fair rent' levels would mean that Income Support recipients in social rented housing would be faced with the same difficulties as those in the private sector. Recipients would be required to use a proportion of their basic Income Support components to meet their rental shortfall.

Key Finding 15

The current savings requirements imposed by the Comprehensive Spending Review places the funds available to maintain the accommodation component at 'fair rent' levels at risk.

Recommendation 13

Pending a long term solution to the funding of social housing, (Recommendation 12) the Minister for Social Security must resist any pressure to cap the rising cost of the accommodation component of Income Support.

17. Income Support and Earnings.

17.1 *“The minimum wage at [around] £6.00 is far too low, with food and accommodation in Jersey the most expensive in the world.”⁴⁶*

“I found a new job with better prospects, term time only but when reassessed at Income Support my extra wage makes up for what I am losing on Income Support, so [I am] no better off for changing jobs.”⁴⁷

“I am looking to going back to work in the future (when youngest child goes to school nursery) Having great difficulty in getting support for relevant (support training) prior to this. Am concerned that if I go back to work, I will be worse off or no better off than I am now on Income Support.”⁴⁸

17.2 The earlier Tables 7 and 8 showed the large effect that rent had on relative low-income assessments. In effect, the high proportion of benefit allocated to the accommodation component distorts the benefit system dramatically. Further evidence is seen in Table 2 of this report, which shows that rent as a proportion of average incomes by tenure is around 33% in all rental sectors. They are on the whole, less well off than owner occupiers.

17.3 The fact that the accommodation component makes up such a large proportion of the benefit payable has two negative impacts on the effectiveness of Income Support:

- i) Income Support operates on a considerable range of earnings and thus reduces work incentives over that range; and

⁴⁶ Response to survey 239

⁴⁷ Response to survey 31

⁴⁸ Response to survey 71

- ii) Income Support entitlement continues further up the income distribution than a simple consideration of 'benefit rates' suggests and this means there is potentially interaction with other fiscal measures, and in particular, income tax.

17.4 Rising rent levels produced by the linkage of 'fair rents' to 90% of market levels will compound these 'stretch effects' over time. These 'stretch effects' are discussed in later sections of this report.

17.5 The report so far has considered only the basic Income Support components that claimants receive in the absence of any other form of income whether earned or otherwise.

17.6 Income Support was designed to be both a safety net for families with no income and an in-work benefit to supplement those on low or fixed incomes. The majority of claimants⁴⁹ have other forms of income in addition to Income Support.

17.7 The Sub-Panel will now examine the financial impact on households when Income Support is paid alongside earnings and how other areas of social policy affect Income Support recipients.

17.8 Before looking at the influence of wages, it is important to take into account what is termed the "stretch effect" that the accommodation component has on increasing the range of incomes over which Income Support operates.

17.9 The Social Security Department Data Report 2010 provides Tables that show the average rents paid by Income Support claimants in early 2010. These are reported in Table 21 along with the minimum basic components of Income Support payable (that for a single householder) to give an indication of the potential 'stretch'.

⁴⁹ Social Security Data 2009

17.10 On average, the amount paid in rent is greater than the minimum basic components for a single householder – 110% (or 10% over) and private rents 121% (21% over). Whilst for larger families, rent will represent a lower percentage of underlying Income Support, it is worth pointing out that, crudely, rent will raise Income Support levels considerably and double them in some cases.

17.11 Table 21 puts such figures in both weekly and annual terms to allow subsequent comparison with potential earnings at the minimum wage and with annual incomes for taxation purposes.

Table 21. Rents and Income Support – Weekly and Annual Comparisons.⁵⁰

	States Tenants	Private Tenants
No of Income Support cases	3,267	2,540
Rent		
Average weekly gross rent	£153	£168
Gross rent - annual equivalent	£8,020	£8,772
Basic Component of Income Support		
Single householder - weekly	£139	£139
annual equivalent	£7,275	£7,275
Combined Rent and Basic Component		
weekly	£293	£309
annual	£15,295	£16,047

Source: DSS Data Report 2010 Tables 6 a), b) c) & d and DSS Income Support Calculator

17.12 For a single person in receipt of Income Support, if they have no other income, their basic entitlements including rent will range from £245 (if they live in a bedsit) to around £300 (if they live in a one bedroom house). This is equivalent to gross earnings at the minimum wage obtainable from working 39 to 48 hours a week.

⁵⁰ Notes: Average rents are weighted averages across whole IS claimant renting populations. All sums rounded to nearest £1

- 17.13 However, once Social Security contributions are deducted, this is equivalent to between 42 and 51 hours at the minimum wage. Therefore, many low earners in rental accommodation will be entitled to Income Support. This entitlement will increase as family size increases (with partners and/or children) and as rents increase.
- 17.14 But these simple comparisons of rates and rents do not tell the whole story. We now examine the effect of Income Support disregards and tapers on earnings to determine net household incomes.
- 17.15 Table 22 illustrates three hypothetical cases – a single person, a couple with no children and a couple with two school-age children. It shows the gross and net wages (after deduction of Social Security contributions) which result from employment at the minimum wage. The impact of earnings on the level of Income Support available is shown in column four and as a percentage of net wages in column five. These three scenarios have been more fully explored in the case studies in Chapter 6 of this report.
- 17.16 The levels of rent used in these calculations are realistic. Median rents in the private sector for couples with children are reported at £226 weekly in the Social Security Department Data Report 2010 and the level used in the computation for a couple in Table 22 is below the ‘fair rent’ level for a three-bedroom house.
- 17.17 A range of work scenarios is explored in which 37.5 hours is taken as equivalent to one full-time worker. For each household, the number of hours of work that are required to lift the family out of the need for Income Support is highlighted.
- 17.18 Full time (37.5 hours) minimum wage employment for a single person (paying £150 per week rent) will attract £98.58 Income Support weekly. That is equivalent to 42% of their net wages.

Table 22. Minimum Wage Employment and Income Support Entitlement.⁵¹

Minimum Wage Employment			Income Support	
Hours per week	Gross Wage	Net wage after SS contributions	Income Support Payable	% of net wage
Single Person - £150 rent				
0	0	0	£289.23	-
37.5	£232.50	£218.55	£98.58	42%
57	£353.40	£332.20	0	-
Couple - £150 rent				
0	0	0	£381.35	-
37.5	£232.50	£218.55	£190.70	87%
56	£347.20	£326.37	£96.65	30%
75	£465.00	£437.10	0	-
Couple with two children - £250 rent				
0	0	0	£605.53	-
37.5	232.5	£218.55	£414.18	190%
56	347.2	£326.37	£320.83	98%
75	465	£437.10	£224.23	51%
119	737.8	£693.53	0	-

Source: Dr. M. Evans, Panel Advisor, calculations using DSS Income Support Calculator

17.19 This person would have to work 57 hours a week at the minimum wage (or increase their hourly earnings to £9.42) to achieve the level of income available from Income Support. His or her gross earnings would then be £353.40 per week. This is equivalent to 56% of average earnings in Jersey in June 2010.⁵²

17.20 A couple without children, if not working, would be entitled to £381.35 in Income Support. With one full time worker employed at the minimum wage, Income Support is reduced to £190.70 or 87% of take-home pay. Only if they both

⁵¹ Notes: Orange cells - The minimum hours required to reduce IS to zero at the margin of entitlement.

⁵² Index of Average Earnings June 2010 – Statistics Unit States of Jersey.

worked full time, a total of 75 hours, would they escape Income Support entitlement.

- 17.21 Finally, a couple with two children (paying £250 rent on a three-bedroom house) would be entitled to receive £605.53 if neither parent was in work. With one full-time worker at minimum wage, Income Support would be reduced to £414.18. If both parents worked full time (75 hours per week in total) then Income Support would be reduced to £224.23 or 51% of their take-home pay.
- 17.22 To escape Income Support, the couple would have to work a combination of 119 hours a week at the minimum wage, providing a joint gross wage of £737.80 per week.
- 17.23 The figures in Table 22 show that for a single person and a couple with two children, full time work at the minimum wage does not allow these households to escape from dependency on Income Support.
- 17.24 The fact is that any rise in the minimum wage will be matched by a reduction in the Income Support paid to that household. Since almost 50% of participants in Income Support are of working age, it must be recognised that large savings in the Income Support bill (currently £62m) could be achieved by simply raising the minimum wage at a rate above inflation.
- 17.25 It is arguable that the Income Support system is in effect subsidising employers who pay low wages. In considering the level of the minimum wage rate every year, much consideration is given by the States to the economic impact on employers. Equal weighting should be given to the impact on the overall Income Support bill in future.
- 17.26 It is evident that the combination of the minimum wage as currently set and the tapers and disregards built into Income Support produce very little incentive to work.

Key Finding 16

At its current rate, the minimum wage results in high demand for Income Support from a wide range of household types.

Recommendation 14

The Minister for Social Security, in his own review of Income Support, must examine the interaction between the level of the minimum wage and the overall cost of Income Support.

Key Finding 17

The system of tapers and disregards for earned income in the Income Support structure provides insufficient incentives to work.

Recommendation 15

The Minister for Social Security, in his own review of Income Support, must conduct a thorough overhaul of tapers and disregards for earned income in order to greatly improve incentives to work.

18. Income Tax

18.1 *"I am aged 67 years and still work 40 hours a week. The cost of things is very bad here... I have lived here since I was two and a half years old.... I have never asked for help, but now I could do with it as I am finding the ITIS very hard to cope with. Surely special rates should apply to the elderly and make the wealthy immigrants pay more."⁵³*

"As an OAP who has worked all my life, I have a pension which I contributed to from my work place. Unfortunately it is not index linked, therefore doesn't keep up with the rising cost of living. I also have the Jersey OAP Pension. This is my entire income and I do get help through Income Support with my rent. But because my two pensions just take me into the Income Tax bracket I have no other help and have to find approx £600 per annum in Income Tax. I feel that there must be some way that people who just fall into this trap could be given some thought."⁵⁴

18.2 All Income Support payments are disregarded in calculating a household's Income Tax liability. However, the figures provided in Table 24 show that a single person can have earned income which takes him above the tax threshold of £12,650 and still be eligible to claim Income Support.

18.3 A couple with no children are treated somewhat differently and will not, in general, be subject to Income Tax whilst they remain on Income Support. The presence of two children however, may well bring households into income tax.

18.4 There are three fundamental questions which need to be answered in relation to earnings from employment for those on Income Support and income tax thresholds.

⁵³ Response to survey 136

⁵⁴ Response to survey 284

These are:

- i) Is there an overlap between Income Support and Income Tax thresholds?
- ii) Should recipients of Income Support be paying tax at all?
- iii) Does the interaction between Income Support levels and Income Tax thresholds produce equitable outcomes?

18.5 Clearly, the earlier Tables confirm that incomes from earnings in Income Support cases can reach levels that attract liability for Income Tax. The extent to which this occurs and how such cases are treated is something that requires urgent consideration and further exploration.

18.6 The Social Security Department Data Report 2010 shows that median and average gross earnings levels for couples with children on Income Support were between £22,000 and £23,000 per annum and similar earnings for lone parents were over £15,000.

18.7 Some of these cases may represent higher income 'transitional support' cases. However, the potential overlap with Income Tax thresholds is present and is demonstrated in Table 24.

18.8 Table 23 shows the entry and exit points for any overlap between Income Support and Income Tax for a range of families, rent and earning assumptions.

Table 23. Income Tax and Income Support Entitlement.⁵⁵

	Single Person	Couple with no children		Couple with 2 children	
		1 earner	2 earners	1 earner	2 earners
Income Tax					
Earnings threshold	£12,650	£20,280	£24,780	£26,280	£30,780
Income Support as % of Income Tax Earnings Threshold					
At Median States					
Rental	109%	92%	75%	109%	93%
At Median Private					
Rental	117%	97%	79%	113%	96%
Earnings at which entitlement to Income Support ends as % of Income Tax Earnings Threshold					
	143%	118%	97%	128%	109%

Source: Dr. M. Evans, Panel Advisor, calculations from States of Jersey Tax office Income Tax Model; DSS Income Support Calculator

18.9 For a single person, Income Support eligibility including rent is over basic thresholds for liability for tax (between 9% and 17% over the threshold depending on the rent assumption). Once that person starts earning the overlap continues until earnings are 43% over the tax threshold, at which point eligibility to Income Support ends at the upper margin.

18.10 For couples with no children the underlying entitlement to Income Support is below Income Tax thresholds but where only one parent works, then earnings and Income Support components can bring the family into income tax.

18.11 For couples with two children, Income Support levels are generally below Income Tax thresholds where both adults are working. If only one adult is working, then the household may become liable for income tax. This disparity between a single

⁵⁵ Notes^a Using only basic tax allowances and thresholds and without inclusion of any other allowable relief or deduction. Using 2009/10 IS rates and 2010 Income Tax allowances Income Tax calculations agreed with States of Jersey Tax Office. Rent levels taken from DSS Data Report 2010.

earner or two earning adults in a household, continues across the full range of earnings.

18.12 This brings us back to the three fundamental questions we asked at the beginning of this Chapter:

1. Is there an overlap between Income Support and Income Tax thresholds?

18.13 Although the examples used in Tables 22 and 23 are only illustrative, the results would indicate that there is, potentially, an overlap between receipt of Income Support in conjunction with earnings and liability to pay Income Tax.

2. Should recipients of Income Support be paying tax at all?

18.14 It appears axiomatic that Government should not be paying benefit to households with one hand only to take it back with the other.

3. Does the interaction between Income Support levels and Income Tax thresholds produce equitable outcomes?

18.15 The answer here appears to be negative in that a liability for tax in the illustrative examples of households used shows wide variations.

18.16 The evidence shows that the Income Support Scheme has been developed without sufficient consideration being given to potential or actual overlaps with Income Tax thresholds. As discussed earlier, the 'stretch' effects of the large rental component of Income Support means that some households find themselves receiving benefit and paying tax. This is clearly economically inefficient.

Key Finding 18

Potential or actual overlap between Income Support and Income Tax thresholds is a major defect in the system.

Recommendation 16

The Ministers for Social Security and Treasury and Resources must work together to reduce the overlap between Income Support levels and Income Tax thresholds at the lower end of the earnings distribution in order to correct inefficiencies and report their findings within 12 months.

Recommendation 17

The Ministers for Social Security and Treasury and Resources should pursue the potential benefit from improved modelling of the tax and benefit system to produce profiles similar to that produced by the UK Government entitled “Tax Benefit Model Tables” and report their findings within 12 months.

19. Pensions and Savings

- 19.1 *“The cost of living has definitely affected our lifestyle over the last year. Low bank interest, GST, taxation levels on fuel etc have prevented us from making that little bit extra on our savings for our desire to remain as independent as possible as we get older. We are very concerned about the cost of nursing homes.”⁵⁶*
- “It is very difficult to manage on a States pension always having to dip into savings each year. We also believe it is wrong for people who have looked after themselves and saved all their adult lives to have to pay more for their later healthcare years..”⁵⁷*
- 19.2 The Social Security Department (SSD) Data Report 2010 shows that 31.6% of all Income Support claims are for households where at least one person is of pensionable age. The States of Jersey Statistics Units’ population model estimates that around 23%-25% of Jersey’s elderly population relies on Income Support.
- 19.3 That report also shows that the median (typical) private rent paid by elderly Income Support claimants is £143 per week – with a mean rent of between £130 and £135, suggesting that there is a skew towards lower than typical private rent levels in the overall distribution of rent paid by this group.
- 19.4 For illustrative purposes, and ignoring cases that currently get Income Support under transitional protection arrangements, then a ‘typical pensioner’ claimant in 2009/10 would get approximately £120 per week from Income Support as calculated -

⁵⁶ Response to survey 240

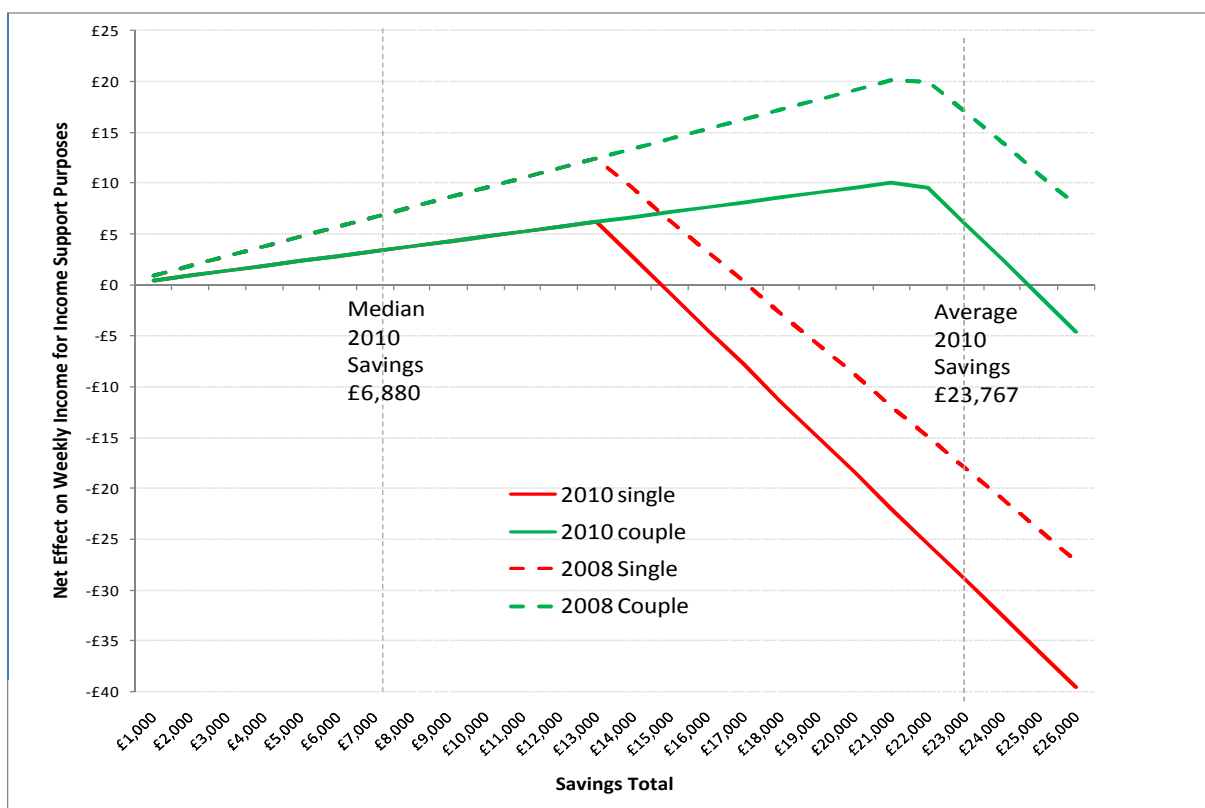
⁵⁷ Response to survey 262

Basic component (single adult) in own household	£92.12 + £47.11 = £139.23
	Rent £125.30
	Total 'needs' <u>£264.53</u>
Income from Jersey Pension £178.01 (£32.06 disregard)	- £145.32
Income Support Entitlement	£119.21

- 19.5 **Savings.** The Social Security Data Report 2010 shows that 90% of Income Support pensioner households have some level of savings. Of these, a minority, nearly 15%, have very low savings, i.e. less than £1,000. The typical level of savings (the median case of those with positive savings) is £8,560 (for households with a disability component) and £6,870 (for those without). The mean figure for pensioner savings is £23,767.
- 19.6 The threshold for the deduction of income from capital in Income Support is set at £13,053 for a single pensioner and £21,636 for a pensioner couple. This means that for all savings below these thresholds any income from such savings is disregarded.
- 19.7 For those pensioners with significant savings over the threshold, Income Support operates a system of 'Deemed income'. Every £250 of savings above the threshold is deemed to return £1 a week (£52.25 per annum) in income. This is an annual interest rate equivalent to 20.9%. Such rates are obviously unrealistic, nevertheless, for every £1 of deemed income above the threshold, £1 is withdrawn from the Income Support payable. With current interest rates returning less than 12 pence per week from £250 invested, this use of deemed income severely penalises those who have saved for their retirement.
- 19.8 Many pensioners rely on their savings to supplement their incomes. Since the introduction of Income Support in January 2008, interest rates have fallen significantly. This has meant a reduction in the standard of living for pensioner households. Whilst this might be a relatively minor problem for those with low savings, it is significant for those whose savings are above the threshold.

19.9 The Minister for Social Security has effectively acknowledged that there is a problem with “Deemed Income” by increasing capital thresholds over the past two years. Figure 9 shows the difference between 2008 and 2010 income from savings following its treatment by Income Support. It shows 2 lines based on 5% (a higher interest rate available in 2008) and 2.5% (the low rate available in 2010) on the same ranges of savings for single and a couple pensioner cases.

Figure 9. Income Support and Income from Savings 2008 and 2010



Source: Dr. M. Evans, Panel Advisor, calculations and DSS Data Report 2010

19.10 What Figure 9 demonstrates is that whilst actual income from savings has fallen from 2008 to 2010 (due to lower interest rates) the treatment by Income Support has made such shortfalls in income worse.

19.11 For those with low levels of savings Income Support ignores any income. Their interest has fallen and their incomes are lower. For those with savings above the thresholds at which deemed income is calculated then the effects of up-rating the

thresholds has been completely outstripped by the fall in interest rates alongside a constant rate of assumed return set in the regulations.

19.12 For a pensioner couple (Figure 9, green lines) in 2008 the deduction of Deemed Income did not eliminate the actual interest earned until savings were well above £26,000. In 2010 the lower interest rates meant that the Deemed Income eliminated any return from savings at £25,000.

19.13 For single pensioners (Figure 9 red lines) the lower threshold makes this effect occur on lower levels of savings, so that Deemed Income was greater than actual interest at £18,000 in 2008 but at around £15,000 in 2010.

19.14 To put it simply, the 'net' income from savings for a single pensioner on Income Support with £16,000 savings has changed from £3.31 a week in 2008 to a reduction of £4.34 in 2010. This is a total reduction in weekly income of £7.65.

19.15 The issue of Deemed Income has been raised in the submission of the Citizens Advice Bureau on 7th May 2010, as follows,

“We recommend that the “Deemed Income” from capital figure of £1 per week for every £250, is reviewed. The current figure equates to a 21% return on capital which is unrealistic in the current economic climate.”

19.16 This raises the obvious question of how sensible it is to have a fixed tariff income assumption at all, particularly at the rate applied which many consider punitive. This is made worse during a period of rapidly falling interest rates. Pensioners who are income poor but have moderate assets have been hit hard.

19.17 The interest rate charged on savings should be set at a realistic rate to reflect actual bank interest rates and consequently the amount of income generated from those savings.

Key Finding 19

The current Deemed Income system, which is currently charged on savings at an annual interest rate equivalent to 20.9%, severely penalises those who have saved for their retirement.

Recommendation 18

The Minister for Social Security should set an interest rate to be charged on savings over the threshold at a realistic level to reflect actual bank interest rates. This rate should be reviewed annually.

20. Health Care

20.1 *“I have found myself out of work since November through no fault of my own and therefore have gone from earning a good wage to Income Support ..I have actually had to cancel Doctors due to the cost of £35 each visit.”⁵⁸*

“As one gets older, it is a fact of life that visits to the Doctor are more frequent and the fees involved are a continual worry. My surgery charges £35.20 for each visit and considerably more if I need a home visit. I have been in hospital 3 times in the last 2 years, which fortunately is free but it has cost me several hundreds of pounds for Doctors fees in between.....”⁵⁹

20.2 The treatment of medical costs by Income Support has been an ongoing issue throughout the past two years. Under the previous welfare schemes there were some who received free GP consultations by virtue of the Health Insurance Exemption Scheme (HIE).

20.3 In the new scheme, a Household Medical Account (HMA) was brought in. The HMA was not a replacement for the HIE. HIE claimants were allocated an HMA under Income Support. This was to help them adjust to the new system. Initially, it was proposed that Income Support recipients with HMA would pay £5 per GP consultation with the balance paid from the clients HMA. This £5 part payment was soon abandoned.

20.4 Income Support households with a HMA have a small weekly amount (£1.93 per person initially) withheld from their benefit and set aside to pay for up to four GP consultations annually.

⁵⁸ Quote from survey reply number 56

⁵⁹ Quote from survey reply number 273

- 20.5 Should the client require more visits to the GP due to a chronic or debilitating condition then the client can apply for the additional cost to be met from funding via a Clinical Cost Component at Level 1 (up to 8 visits) or Level 2 (up to 12 visits). Should urgent extra treatment be required for a short-term illness requiring GP assistance then the cost of any GP visits may be met by Special Payments.
- 20.6 On some occasions, clients and GPs appear to have been unaware that the clients were able to seek financial assistance with the unforeseen extra medical costs from Special Payments. This resulted in clients becoming anxious as to how they could cope with doctors' bills (sometimes amounting to hundreds of pounds). In some cases the Social Security Department demanded that the clients arrange to pay back the overspend on their HMA accounts.
- 20.7 Overall, it is clear that the HMA does allow Income Support clients to make provision to pay for their planned GP bills in the form of regular small amounts from their weekly benefit. The existing Clinical Components are set up to address chronic or debilitating illness but are not designed to cope with unforeseen medical visits and expenses. This provision is only available through Special Payments and requires either the GP or the client to make an application for the funds to be paid into the HMA.
- 20.8 Concerns about the removal of HIE and the effectiveness of HMAs is reflected in the comments submitted by CAB.

“The Social Security Department need to carry out a publicity exercise to ensure that all Income Support households understand that the basic personal component for each member of the Income Support unit includes the provision for up to four GP visits per year. We also recommend that the setting up of HMAs should be mandatory where there are any members of the unit in receipt of clinical cost components.”

20.9 It has become clear that many Income Support recipients are worried about being able to meet their GPs' medical bills. This is strongly reinforced by a submission from Health Plus Limited a GP practice in St Helier:

“Prior to instituting Income Support with specific reference to change from the HIE system, we had a number of meetings with Social Security representatives. Our concern was that vulnerable people covered at that time by the HIE system might be deterred from seeing the Doctor for financial reasons. We were led to understand that financial constraints would never restrict the access to medical care for those people and that if their medical budget were to run out, Social Security would increase their medical budget to meet the reasonable fees that they required...

...However, that has not been the case from our experience. Many HIE patients are very concerned about their medical budget and restrict their medical treatment to the detriment of their health.”

20.10 The concerns expressed by this GP practice that some Income Support patients are restricting their medical treatment is reflected in the figures shown in Table 24.

Table 24. Impact of Cessation of Health Insurance Exceptions.

Derived from: Social Security Report and Accounts 2009

	2007	2008	2009
Health Insurance Ordinary	85,013	90,800	91,800
Number of persons in scheme			
Number of GP visits during year	334,898	383,931	409,940
Health Insurance Exceptions	4,287	N/A	-
Number of persons in scheme			
Number of Doctors visits during year	55,455	4,198	-
Total number of GP visits	390,353	388,129	409,940

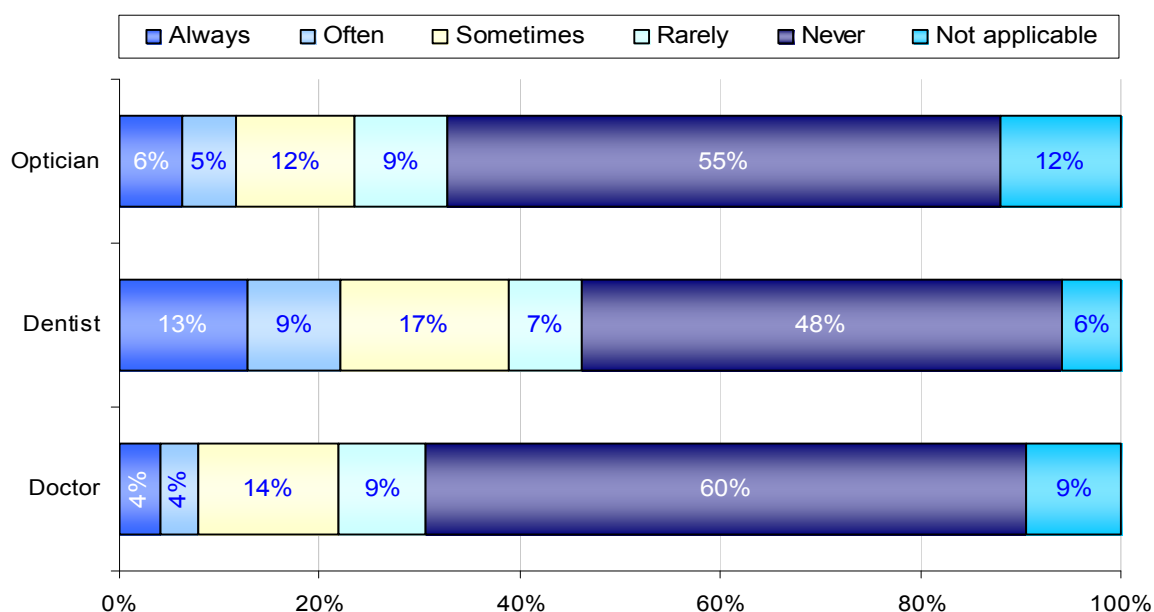
Figures supplied by Social Security Department March 2011.

20.11 This shows that although the number of persons covered by the Health Insurance Scheme has increased over the period 2007 to 2009, the number of GP visits decreased in 2008 before growing in 2009 (the year of the H1N1 flu pandemic know as 'Swine Flu').

20.12 In addition, the Income Support benefit is supposed to cater for one dental check up per year. Potential dental bills are also a concern for many Income Support recipients.

20.13 Notwithstanding the limitations of HMAs above, it has come to the Sub-Panels' notice that no new HMAs are being created and those already in existence are being reviewed and many have been discontinued. That potential medical bills are a problem for many is revealed by the results of the JASS survey as follows:

Figure 10. Does your household experience difficulty paying for the following?

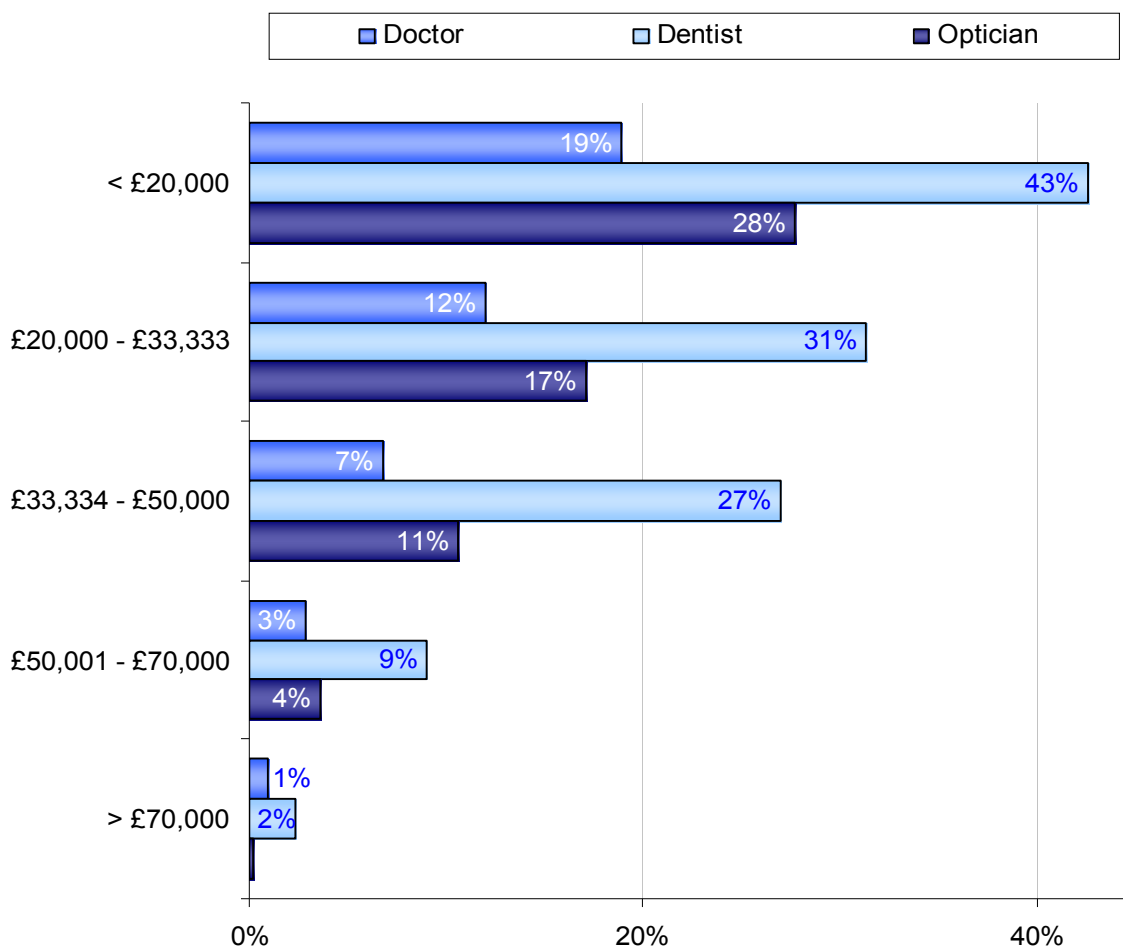


Source: Fig 12.15 JASS 2010

20.14 More than one in five said that their household always or often found it difficult to pay for the dentist and around one in ten always or often had difficulty paying for the doctor or optician.

20.15 Analysing these results by income reveals that a greater proportion of individuals from households with a lower income had difficulty paying, as shown in Figure 11.

**Figure 11. Does your household experience difficulty paying for the following?
Percentage answering Always or Often, by household income**



Source: Fig 12.16 JASS 2010

20.16 Two-fifths (43%) of households with total annual income below £20,000 had experienced difficulty paying for the dentist, over a quarter (28%) had experienced difficulty paying for the optician and a fifth (19%) for the doctor.

20.17 A third (34%) of households containing at least one child had experienced difficulty paying for the dentist, compared with a sixth (17%) of households without children (see Table 25). The proportions of households with children

having had difficulty paying for the doctor or the optician were similarly double those of households without children.

Table 25. Does your household experience difficulty paying for the following?

Percentage answering Always or Often, by household type

	Household with children	Household without children	Household with pensioner	Household without pensioner
Doctor	13	6	4	9
Dentist	34	17	11	24
Optician	19	9	6	12

Source: Table 12.14 JASS 2010

20.18 Over half (51%) of households living in States/Parish rental accommodation reported having had difficulty paying for the dentist, compared with a third (33%) living in qualified rental accommodation and one in seven (14%) in owner-occupied accommodation.

20.19 As with the other areas of financial difficulty reported by the public, the problem of paying for medical care is worse for those on low incomes, for those living in States accommodation and for households with children. For a couple with three children, the amount withdrawn from their benefit to contribute towards their HMA will be five times £1.93 or £9.65 weekly. This is a serious dent in the household finances.

20.20 These figures are made worse by the finding, which was reported in JASS 2009 that for nearly a tenth (8%) of all the survey respondents the cost of visiting a GP was;

‘so expensive that it stops me from going’

as shown by Table 26.

Table 26. Do you think that the cost of visiting a GP is..?

	16-34 yrs	35-44 yrs	45-54 yrs	55-64 yrs	65 yrs or more	All ages
Good value for money	2	4	4	6	7	4
About right	12	13	16	19	18	15
Expensive but worth it	20	18	20	25	33	22
Expensive and therefore I only go when I have to	54	57	55	46	39	51
So expensive that it stops me from going	12	8	5	4	3	8
Total	100	100	100	100	100	100

Source: Table 11.1 JASS 2009

20.21 In 2009 respondents were asked how much they paid the last time they saw the GP. For those whose last visit was a surgery appointment the average (median) paid was £32. For home visits the average (median) paid was £55.

Key Finding 20

There is evidence to show that medical costs (G.P, dental and ophthalmic consultations) are a serious problem for many households, especially low-income households in receipt of Income Support, to the extent that significant numbers of people report that the cost stops them going to their GP.

Recommendation 19

The Minister for Social Security must ensure that information is fully and readily available to the recipients of Income Support about how medical costs are to be met.

Key Finding 21

In principle, Household Medical Accounts are a useful mechanism to assist Income Support clients to save for their GP costs.

Recommendation 20

The Minister for Social Security should ensure that all Income Support claimants who wish to can set up a Household Medical Account.

Key Finding 22

The withdrawal of free access to GPs for some low-income households under the HIE scheme following the introduction of Income Support has, in many cases, had a negative impact.

Recommendation 21

The Minister for Social Security should review the funding of medical care to develop a costed scheme to provide limited free access to GPs for certain vulnerable groups and report his findings within 12 months.

21. Conclusion.

21.1 We have seen quite clearly in this report that the Income Support system is far from the finished article. It is not an anti-poverty programme that makes work pay. Neither is it an anti-poverty programme for the elderly that supports saving for old age. The impact of high rent levels on the cost of Income Support render the current structure unsustainable.

21.2 For a wide range of family types across the island, Income Support fails to lift households above the relative low income threshold. In failing to do so, it falls short of the fundamental aims laid out for it at its outset:

“The new system will help and enable people to both avoid poverty and to take appropriate actions and life decisions to get out of poverty. The system will do this by effectively tackling real needs whilst promoting work and encouraging self-reliance...”

21.3 In addition, the potential overlap of Income Support with income tax thresholds, even at the level of the minimum wage, must mean that a major overhaul is required.

21.4 All of the above problems go beyond the possibility of “minor” adjustments to the system, but require a major rethink of the structure and performance of Income Support. We need a credible study of the needs of vulnerable groups in our community along with an assessment of how we can focus our support systems to best meet those needs.

21.5 It is to be hoped that this report, along with the Minister’s current review, will form the basis of further work to better understand the issues involved in formulating and properly targeting social and economic policy over the coming decade.

22. Glossary

After Housing Costs (AHC)	After consideration of accommodation costs
Before Housing Costs (BHC)	Prior to consideration of accommodation costs
Components of Income Support	Income Support can help with different areas of day-to-day basic living costs. These different areas are known as 'components'.
Disregards	Income disregarded for the purposes of Income Support
Equivalised	Weighting of the household income for the type of household to produce a similar standard of living.
Income Support	Income Support is an income-related benefit that provides financial support towards the costs of living, housing, medical needs and childcare. Carers can also receive support.
Income tax threshold	Point at which income becomes liable for tax payments
ITIS	Income Tax Instalment System
JASS 2010	Jersey Annual Social Survey 2010
JIDS 2009/10	Jersey Income Distribution Survey 2009/10
Mean	Average
Median Income	The income of the middle or 50th percentile household
Minimum Wage	From 1st April 2010 £6.20 per hour
Pensions	Pension is a benefit that is paid at a certain age.
Quintiles	Level of income in order from lowest to highest in 20% blocks.
Relative Low Income	Income below 60% of the median income
Relative Poverty Standard	Referred to within the States of Jersey as relative low income.
Self-Selecting Survey	Survey process that allows anyone who is interested to respond
Social Insurance contributions	6% of gross earnings go to Social Security,
SSD	Social Security Department
Special payments	One-off payments to help cover the costs of emergencies.
Tapers	Fixed percentage deduction of benefit due to earned income after disregards.
Weighting	Specification of the relative importance of items when combined.

Appendix 1

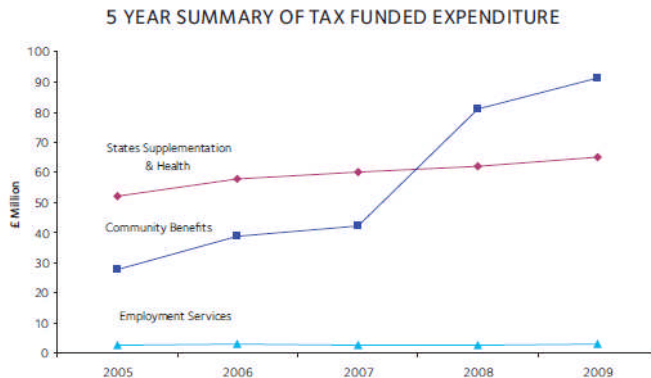
Social Security Department
CENTRE FOR WORK, PENSIONS AND BENEFITS

Statistical Appendix 4

Five year summary of Social Security (Tax Funded) Expenditure

	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000
NET EXPENDITURE					
Contribution from the States					
States Supplementation	50,776	56,567	58,627	61,842	64,995
Health Insurance Exceptions*	1,171	1,218	1,276	125	—
Total Contribution from the States	51,947	57,785	59,903	61,967	64,995
Community Benefits					
Income Support	—	—	—	70,832	83,286
GST Benefit	—	—	—	109	257
Family Allowances*	5,155	5,360	5,564	409	—
Dental Benefit	97	95	92	92	87
Non-Contributory Death Grants	23	10	11	17	14
Milk at Reduced Rate*	361	350	329	16	—
Attendance Allowance*	3,616	3,958	4,161	358	—
Invalid Care Allowance	1,781	2,091	2,070	2,203	2,281
Disablement Allowance*	1,030	1,053	1,120	105	—
Welfare and Residential Care*	4,940	13,201	16,218	1,534	—
Christmas Bonus	1,412	1,459	1,565	1,662	1,692
Disability Transport Allowance*	6,395	6,470	6,616	568	—
Childcare Allowances*	469	514	513	(87)	—
Childcare Support	—	—	—	5	3
Social Fund (States)	246	136	198	100	21
65 + Health Plan	265	176	46	267	295
TV Licence 75+	—	176	195	204	212
Community Benefits Admin Direct and Indirect	2,142	3,824	3,625	2,459	3,290
Total Community Benefits	27,932	38,873	42,323	80,853	91,438
Employment Services					
Employment	1,692	2,219	1,629	1,731	2,112
Health and Safety	406	385	393	390	413
Employment Relations	495	505	485	557	575
Total Employment Services	2,593	3,109	2,507	2,678	3,100
Total Net Expenditure	82,472	99,767	104,733	145,498	159,533

* Benefit paid until 27 January 2008 and then encompassed within Income Support benefit



THE ABOVE INFORMATION IS FOR THE BENEFIT OF THE USER AND IS NOT PART OF THE AUDITED FINANCIAL STATEMENTS.

Appendix 2

Note from Social Security explaining HMAs

Response to Scrutiny Query on HMAs

It is important to emphasise that the HMA is not actually a benefit, but a means of administration to allow direct payment to the GP of the co-payment cost of their fees. Its introduction was a direct consequence of those on the legacy benefit of HIE not being accustomed to budgeting for GP fees.

Under Income Support, many people receive additional support with their GP fees through Clinical Cost components, which are provided to individuals on the basis of specific clinical need. The HMA itself provides no additional funding for GP costs; it is just a payment mechanism. The number of active HMAs is not an indicator of the number of people receiving financial assistance with healthcare costs.

New HMAs are available if an individual is not able to manage their money (and has no-one to assist them) or there is a specific reason (often health related) why an HMA is needed to ensure that the individual visits the GP on a regular basis. These individuals are identified through a case worker or directly by the Department or a GP.

HMAs are also set up for people entering residential care where the care fees are being met in full i.e. the individual has no other monies with which to pay the doctor. The HMA is used as the route of payment, rather than request these individuals, or rather their GPs, to submit bills each time the individual has a consultation i.e. it is less bureaucratic.

The expenditure through the HMA can indicate where someone may need more, or less, assistance with GP fees. As part of the transition from former benefits, all previous recipients of HIE received a Clinical Cost component automatically. But HIE was not assessed on clinical need (it was just a means test), so the transition resulted in some people receiving money for GP visits when they did not have any ongoing clinical need.

Ongoing review of HMAs ensures that Clinical Cost components are set at the correct level and that HMA deductions are not being taken inappropriately. A number of HMAs have been closed where a high credit balance has built up because individuals have had very few doctors' visits. In this case, the HMA deductions cease allowing the claimant to allocate this money to other household needs. The majority of people on Income Support are capable of managing their own money and this includes intermittent healthcare costs. HMAs will also be closed as part of day to day business as families move out of Income Support.

When an HMA is closed, the household receives a letter confirming that they will now be required to pay their GP co-payment in full.

If an HMA is identified with a high debit balance, the household may be entitled to an additional clinical cost component or a special payment, to supplement their ongoing entitlement.

On 28/1/2008 there were 2,748 households with an active HMA.
At 31/12/2010 there were 2,135 active HMAs.

