STATES OF JERSEY

MEDIUM TERM FINANCIAL PLAN 2016 – 2019 (P.72/2015): NINTH AMENDMENT (P.72/2015 Amd.(9)) AND AMENDMENT (P.72/2015 Amd.(9) Amd.) – COMMENTS

Presented to the States on 5th October 2015
by the Council of Ministers

STATES GREFFE

COMMENTS

Deputy M. Tadier of St. Brelade proposes –

- To increase the total intended amount of States income from 2017 – 2019 by a higher rate of income tax to be introduced in 2016 for individuals whose income is greater than £100,000 per annum to offset the financial impact of not proceeding with the proposed savings in the Social Security Department, i.e. retaining the Income Support Index-linking for adults aged below 65, Income Support disregards for LTIA/ invalidity/ survivor's benefits, maintaining emergency grants.

- To increase the total States' expenditure in 2016 – 2019 by not proceeding with the savings in the Social Security Department retaining the Income Support Index-linking for adults aged below 65, Income Support disregards for LTIA/ invalidity/ survivor's benefits, maintaining emergency grants as proposed in the MTFP for 2016 – 2019.

The Council of Ministers strongly opposes Amendment (9) and the associated Amendments (2) and (8).

Summary of Council of Ministers' Comments

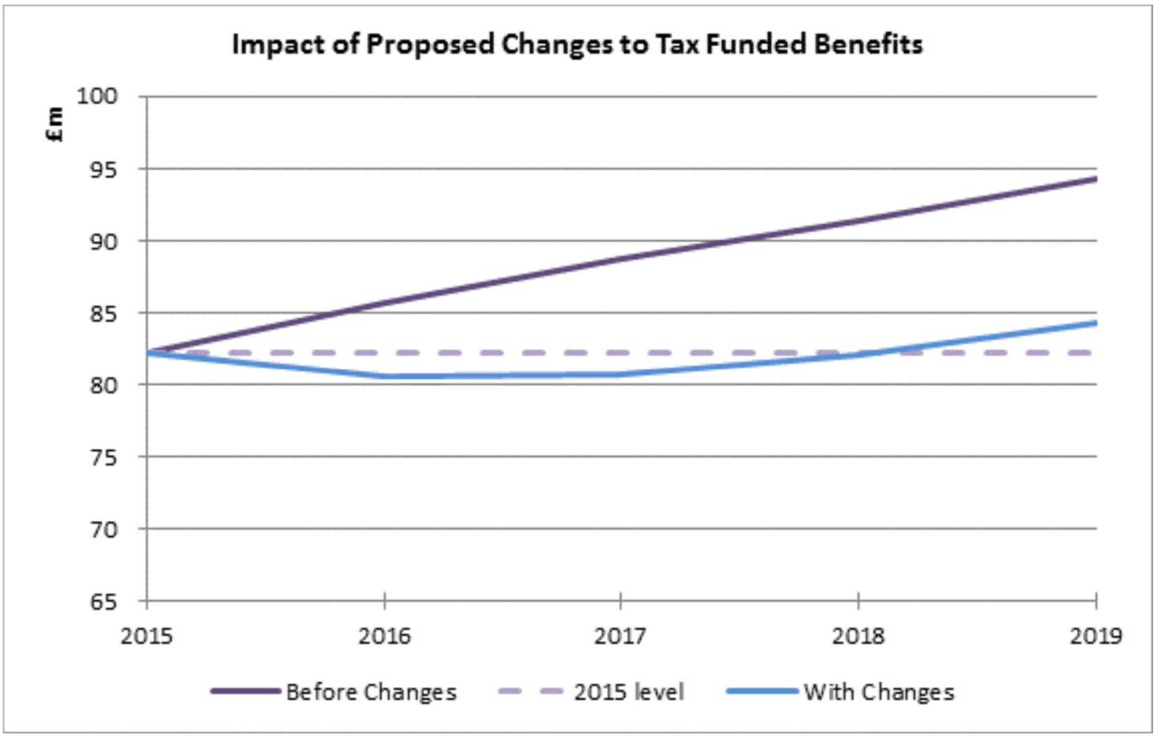
For ease of reference, the Council of Ministers is presenting a single Comment regarding the proposed increases in income tax, which should be considered by States members alongside each of the Amendments (2), (8) and (9).

Every Social Security benefit has been considered and all the proposals were judged against the principle of making the benefit system fairer.

- It is vital that we review these benefits to ensure that they provide effective support to people that really need it.
- The proposed benefit measures have been properly thought through, and in many cases protect existing claimants with budget savings created through holding benefit levels steady, rather than needing to make cuts in current entitlement.
- Workers on Income Support have seen a real increase in income since it was introduced.
- The package of measures presented in the MTFP has been proposed to reprioritise resources by reducing spending in some areas to invest in other, higher priorities for Health, Education, infrastructure, economic growth and improving productivity.
- Each department has considered its priorities and submitted requests for additional funding alongside a spending review which requires savings and efficiencies across the States.
- The Amendment proposals are presented as a package, and the States' first strategic priority is sustainable public finances. This is a principle that should be maintained when considering these proposals.

Summary of benefit proposals

The Council of Ministers believes that every area of government spending should play its part in helping the States to return to a balanced budget. The proposal to hold the benefit budget at its 2015 level by the end of the MTFP represents £10 million, or 7% of the proposed £145 million package of measures needed to balance the budget and fund the investment in States' strategic priorities.



The proposed measures have been properly thought through, and in many cases protect existing claimants with budget savings created through holding benefit levels steady, rather than needing to make cuts in current entitlement to those benefits targeted at need. The package creates savings of £10 million by 2019, compared to an estimated budget that includes full indexation of benefits.

All the necessary changes have been put forward as part of the initial MTFP document. Subject to the States' approval of the current proposals, there will be no need to submit further proposals in 2016.

Every Social Security benefit has been considered and all the proposals were judged against the principle of making the benefit system fairer. Three tests were also used to identify the most appropriate measures –

- *Promoting financial independence;*
- *Improving the targeting of benefits; and*
- *Minimising the impact on individuals.*

Linked amendments

Amendments (2), (8) and (9) taken together seek to reverse the Social Security benefit changes that have been proposed. Rather than offer compensatory savings, these amendments seek to increase the rate of income tax to fund the ongoing budget for these benefits. In the event that the tax increases are not supported by the States Assembly, alternative savings would need to be identified to make up this shortfall of approximately £10 million by 2019.

Detailed Comments

<u>Maintaining income support components at 2015 levels – claimants aged below 65</u>

The Council of Ministers' proposal is that most of the income support components will be maintained at their 2015 values for 2 years, whilst the rental (and childcare cost) income support components will continue to increase in line with inflation. The Council of Ministers wishes to ensure that all income support households are able to afford their rent increases. The MTFP budget also provides for general component increases in both October 2017 and October 2018.

The written report accompanying this Amendment suggests that there has been a reduction in the spending power of claimants since the beginning of income support.

This analysis is not correct and a detailed explanation of this issue was provided in response to Written Question 8956 tabled by Deputy G.P. Southern of St. Helier on 22nd September 2015.

The level of income support received by a household is determined by the value of components and the treatment of income. There has been a substantial improvement in the level of disregard applied to earned income since 2008. From an initial rate of just 6%, the current disregard level stands at 23%. This has led to a significant improvement in the total household income available to income support families that have full- or part-time earnings.

For example, a couple with 2 children with one parent working full-time at minimum wage has seen an increase in household income of £28 a week (£1,472 a year) after adjusting for inflation.

Given the low level of inflation, holding some components steady until October 2017 will have a small impact on these households, but it creates a substantial saving because it affects all households claiming income support. The alternative would be to impose much greater changes on specific groups of claimants.

The amendment to the proposal to maintain income support components has been split across 2 separate propositions (this one and Amendment (2)). Under the current income support system, adults aged above and below 65 receive the same set of components. A proposal to increase components just for claimants aged under 65 (or over 65) would require significant changes to IT and administrative systems. Additional resources would be required to make these changes, and there would be a delay of a minimum of several months before this split could be implemented. Ongoing administration costs would increase.

Amendment (9)(ii)

Maintaining current disregard levels for contributory benefit income

The current income support legislation includes a 6% disregard against some types of contributory benefit income. These mainly cover claimants with long-term medical conditions, who are claiming either LTIA or the old invalidity benefit. It also covers a small number of working-age individuals who are claiming a survivor's benefit.

These individuals are receiving 2 benefits from the Social Security Department, and the current disregard means that they keep a small percentage of the contributory benefit, on top of their income support award. The maximum standard rate benefit is approximately £200 per week, giving a maximum additional income of £12 a week.

This extra allowance is not aimed at any specific need, or additional cost. It is not provided to income support claimants who are receiving sickness benefit (STIA), maternity allowance or carers allowance (HCA). It adds extra complexity to the Income Support system and does not encourage claimants to move towards financial independence.

Claimants who have long-term health conditions or a disability can claim a range of medical benefits through income support to assist with various costs associated with their condition. The 'Back to Work' teams have already extended the support they can offer to people with long-term conditions, to help them return to suitable employment, and will be continuing to extend the help they provide in this area.

Amendment (9)(iii)

Providing one-off loans instead of grants

Income support is designed to support basic weekly living costs. One-off payments, known as special payments, are used to help with the cost of more significant items such as rental deposits, white goods and dental costs.

At present, most special payments for white goods, furniture and fittings are given as grants, and do not need to be repaid. Other special payments such as rental deposits are provided as loans which are repaid in small weekly amounts.

The savings proposal is that payments for white goods, furniture and fittings will now also be provided as loans. This ensures that a household can always receive help with basic items, but reduces the cost to the Social Security Department as loans are repaid. Household circumstances are always carefully considered when setting the level of repayment. Vulnerable claimants such as care leavers will still receive grants when needed.

Other special payments, such as help with funeral costs and dental costs for pensioners, will continue to be available as grants.

Sustainable Public Finances and Prioritisation and Re-allocation of Resources

The Deputy is proposing to maintain certain of the existing benefit provisions by increasing taxes.

- The Council of Ministers has prioritised the proposals in the MTFP on the strategic priorities of the States.
- The package of measures presented in the MTFP has been proposed to re-prioritise resources by reducing spending in some areas to invest in other higher priorities for Health, Education, infrastructure, economic growth and improving productivity.
- Each department has considered its priorities and submitted requests for additional funding alongside a spending review which requires savings and efficiencies across the States.
- The Amendment proposals are presented as a package, and the States' first strategic priority is sustainable public finances. This is a principle that should be maintained when considering these proposals.

Financial and manpower implications

This Amendment is part of three similar Amendments (2), (8) and (9), which together propose to raise £9.6 million in Income Tax and not to make the benefit changes from Social Security.

The Amendment is presented as financially neutral. However, States Members should consider the benefit proposals a package with the decision to increase income tax, otherwise the implications of this Amendment could be an increase in spending and projected deficit of £4.1 million in 2019, or cumulatively more than £14 million over the period of the Plan.

The amendment identifies cost implications for each year of the MTFP for each of the changes proposed.

The Social Security Department has published details of the impact of these changes for 2016, and it should be noted that there are some discrepancies between the departmental figures and those identified in Amendments (2), (8) and (9).

The report published by the Minister for Social Security in respect of associated legislation (P.103/2015, Draft Income Support (Miscellaneous Provisions No. 2) (Jersey) Regulations 201-) explains that a degree of flexibility has been incorporated into the overall plan to allow both for unforeseen external pressures to be accommodated but also for the possibility of improvements in disregard levels during the MTFP. Therefore, at this stage, it is not possible to confirm that the figures identified for each sub-amendment for each year of the MTFP are accurate.

A decision that required separate component levels for income support claimants aged above and below 65 may require additional manpower.