STATES OF JERSEY

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BENEFITS PAID BY THE HOUSING AND EMPLOYMENT AND SOCIAL SECURITY COMMITTEES: PROTECTION

Lodged au Greffe on 10th June 2003
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

to agree that there shall be no reductions in the current level of payments made to recipients of benefits through the public and private sector housing rental subsidies schemes from the Housing Committee nor in community non-contributory benefits from the Employment and Social Security Committee, and no changes to the eligibility rules, annual methods of increase or other methods of calculation of any such benefits from the two Committees, until January 2007, or until a comprehensive new low income support scheme is put in place, whichever is the sooner.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

The Fundamental Spending Review recently completed, produced the desired result of cutting projected revenue spending target for 2004 by a further 2.5%. The task remains to combine the measures proposed with the ongoing Fiscal Review to set a framework for an economic and social strategy to take us into 2004 and beyond.

Essentially the majority of the measures that have been produced from the FSR process can be divided into two groups, namely additional or raised charges for services (user-pays charges) and reductions in the range or level of services. Although this proposition seeks to address perceived problems associated with one aspect of the latter, it is necessary to first discuss the former to set the context.

Impact of user-pays charges

Many are already deeply concerned that user pays charges, because of their intrinsic nature, will impact disproportionately on those who are least able to pay. Unlike income tax, which can be tailored to an individual’s circumstances, it is very difficult to make across the board user-pays charges in any way equitable. The example of the proposed sewerage charge is a case in point. A link to rateable value is possible to ameliorate the impact on those who earn least, but this will leave many of the elderly and those on fixed income struggling to meet the charge.

Nevertheless, we are assured that the introduction of each and every user-pays charge will be brought before the States and members will have the opportunity to reject or to amend them and reduce their impact on the poor.

That these measures will have some impact upon the poor is beyond doubt. The advisors to the Finance and Economics Committee, OXERA when discussing the effects of the introduction of a sales tax (consumer-pays) suggest that the raising of £50 million through this mechanism would require an additional £10 – 15 million in benefits to protect the poor (those below the tax threshold) from further hardship. Already the President of the Finance and Economics Committee has suggested that user-pays charges resulting from the FSR process may well amount to some £5 million extra taxation in 2004. To prevent further hardship to the poor would in all likelihood require substantial additional benefits by way of compensation of the order of £1 – 1.5 million.

The current tax system distributes the payment for government services on the basis of taxable personal income (personal income tax), the size of corporate profits (income tax on corporate profits), or on spending levels on particular goods (impots on alcohol, tobacco, petrol etc.). As a result, those who earn more and spend more tend to contribute more to the cost of States’ services. Current States’ services are therefore largely funded according to a citizen’s ability to pay. Moving to a system of user pays shifts the expenditure to those who use the service and, by definition, away from those who do not. Examination of the question of who is most dependent upon those services that the government has taken upon itself to supply, the essential or core services of Health, Education, Housing and Social Security (the four big spenders) quickly reveals that the answer is the poor. The user in “user pays” in these four key areas is undoubtedly poor, and any move to application of the user-pays principle in these areas will produce hardship.

The end product of FSR produced the following revisions to committee budgets for 2004:

	£, m
Health and Social Services	+3.4
Finance and Economics	+3.1
Education Sport and Culture	+1.1
Employment and Social Security	+0.1
Home Affairs	-0.2
Policy and Resources	-0.2
Economic Development	-0.9
Housing	-1.8
Environment and Public Services	-2.5

These overall figures reveal a variety of approaches to the business of cutting expenditure. The big “loser” in this bidding war was clearly the Environment and Public Services Committee with a £2.5 million cut in its budget. This committee has, unsurprisingly, been the leader in proposing user-pays charges, with £2.4 million to be recouped from sewerage charges alone. Further sums are to be raised through increases in a range of planning fees. Other user-pays charges that are under discussion but not yet proposed include the possibility of charges for refuse and roads.

Of the "big four" spending committees, the providers of those essential services that have most direct impact on the public, Health and Social Services has come out of the process with least damage to its plans. The figure of £3.4 million is at the low end of what it was bidding for, but most importantly, the president has refused to go down the user-pays line.

Similarly, the Education, Sport and Culture Committee has managed to protect some growth in the Education element of its budget and restricting cuts and user-pays charges to the sport and culture areas of its responsibility.

Benefit Cuts

This brings us to the crux of the argument surrounding the apparent shift that has been brought about by the Fundamental Spending Review results. So far there has been no discussion of the impact of service cuts on the public, and in particular, in proposed reductions to benefit payments which by definition are targeted at the least well off members of the community. The last two of the big spending committees, Employment and Social Security and Housing both fared badly in the FSR process. The overall figures show that Employment and Social Security have had their funding effectively frozen and the Housing Committee has ended up with a budget cut of £1.8 million.

Both of these committees have decided that their contribution to the savings process will be to reduce the overall sum for benefit payments in a variety of ways. Examination of the overall figures reveals that the impact upon the poor will be significant:

Housing

Abandonment of the disregard of disability and invalidity benefit for rental calculation.

This is to be phased in over 3 years to affect some 700 families on relatively low incomes where these two benefits make up part or all of that income. By 2006 this will remove some £600,000 from these families. This amounts to an average of £850 per year or £16 per week taken from the budgets of these families.

Reduction of rent abatement and rebate

This will affect the 85% of States tenants who currently qualify for rent abatement along with a further 1,000 tenants in the private sector on relatively low incomes. It is intended to reduce this benefit by some £800,000 and this will affect around 6,000 tenancies, raising rents on average by around £130 per year or £2.50 per week. This, of course, will come on top of the annual rise in rental for 2004 of 3.5% and all of these rises will fall on those who are on disability or invalidity benefit.

Employment and Social Security

It is not clear at the time of writing exactly what will be proposed by the Employment and Social Security Committee as a result of the FSR process, but on 13th May the following cuts in expenditure were under consideration –

(a) introduction of an income bar on the Christmas Bonus;

(b) containment of subsidy rates on the Dental, Optical and Chiropody Scheme for the over 65's;

(c) exclusion of those in residential homes from the Disabled Transport Allowance;

(d) Freezing non-native welfare and non-contributory benefits at 2003 levels.

One might argue the merits or otherwise of any of these proposals, but the one certainty is that they would have some impact on the poor. These are the benefits put in place specifically to support the poor, the elderly and those in need.

It is worth noting here that the removal of inflation growth of non-contributory benefits outlined in (d) would, alone, effectively cut some £1 million from such schemes as Family Allowance, Invalid Care and Childcare Allowances.

Hardship

I would argue that cuts such as those in the £2.4 million outlined above would inevitably cause hardship, especially at a time when user-pays charges are to be introduced, amongst those dependent on benefits. Certainly, the President of the Employment and Social Security Committee in his answer on May 13th agreed, when he said –

> *"I would accept that some of these expenditure cuts… would certainly have an impact on the less well off."*

The vice-president of the Housing Committee in his reply of the 13th was in denial:

> *"While some tenants… will have less disposable income, there should not be any cases of hardship."*

Nevertheless, when pressed the vice-president suggested that any hardship caused by these measures would be met by the "*low-income support system*".

In a separate answer on the impact of a user-pays sewage charge, the President of the Environment and Public Services Committee responded in like manner:

> *"It is anticipated that cases of genuine hardship will be addressed through the low-income support mechanism"*.

The point that seems to have been missed by individual presidents is that there is presently no low-income support system in place, nor is there likely to be one before 2006. Even when it is, it will need proper funding if it is to deliver effective and efficient support where it is most needed. In the meantime, support for any hardship caused by moves to increased user-pays mechanisms or reduction in services can only possibly come from one or more of three sources.

1. The benefit system through DESS.
2. The Parish welfare system.
3. The fiscal system through income tax changes.

As has been demonstrated above, the benefit system is itself under pressure to make savings, and even if the worst-case scenario outlined above does not come to pass, it is difficult to see how greater funding will be readily made available in the short term. In many, if not the majority of cases where hardship may occur, the tax system is inoperative. The worst cases will be, by definition, well below any threshold for income tax. So that leaves the parish welfare system. The changes being proposed by the FSR process, no matter how attractive they might appear on the balance sheet, will result in increased hardship for many. This in turn will cause increased pressure on a welfare system that is already under strain. Whilst we can anticipate that a restructuring of the balance between the parishes and the executive, operating alongside a low-income support system, may produce more rational and effective answers to the problems of poverty on the island, to proceed with the mixture of cuts and charges demanded by FSR would be a mistake. To pursue the cuts in benefits outlined above would constitute an unprecedented attack on the poor. It would, at a stroke, remove any progress towards the eradication of poverty, which may have been made over the past decade.

Financial/Manpower implications

There are no manpower implications arising from this proposition.

However, if the proposition is adopted the States may forego financial savings of up to £4 million dependant on the way in which savings can be re-formulated by the Committees concerned.