STATES OF JERSEY

INCOME SUPPORT SYSTEM

Lodged au Greffe on 26th April 2005
by the Employment and Social Security Committee

STATES GREFFE

PROPOSITION

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

to refer to their Act dated 2nd May 2000 in which they charged the Employment and Social Security Committee to identify the likely effects of a new income support system, to their Act dated 17th February 2004 in which they agreed that the new system should contain a 'disability component' for the extra cost of disability to replace all the existing non-contributory disability benefits and to their Act dated 9th September 2003 in which they agreed that the new scheme should be established by 2006, and to agree that –

(1)(a) the existing benefits defined in the Family Allowance (Jersey) Law 1972, the Attendance Allowance (Jersey) Law 1972, the Invalid Care and Disability Allowances (Jersey) Law 1978 (except Invalid Care Allowance), the Disability Transport Allowance (Jersey) Law 1997, the benefits described under the Childcare Allowance and Discount Schemes, the Health Insurance Exception Scheme, the Educational Allowance Scheme, the Milk at a Reduced Price Scheme, the Rent Rebate and Abatement Schemes and the Parish Welfare and Non-Native Welfare Systems be discontinued;

(b) the benefits described in paragraph (a) be replaced by one system based on a common evaluation of current household income;

(c) payments made under the new system be based on a series of components as described in Section 5.3.4.1 of the report of the Employment and Social Security Committee dated 21st April 2005;

(d) the Health Insurance (Jersey) Law 1967 be amended to target individuals who may have chronic ill health and to allow more flexibility in the delivery of benefit; and

(e) a Citizen's Fund be established as part of the system to help with such expenses as are currently met through the Parish Welfare system and the Social Fund Budget of the Employment and Social Security Committee as described in Section 5.3.8 of the report of the Employment and Social Security Committee;

(2) the Employment and Social Security Committee be politically accountable for the new system and its development, co-ordination and administration;

(3)(a) the cost of payments made under the system, its development, implementation, administration and manpower as described in Sections 6 and 7 of the report of the Employment and Social Security Committee be funded from general revenues of the States;

(b) the Employment and Social Security Committee be charged with devising a scheme of phased protection to those households who may be affected by the removal of existing benefits as set out in paragraph (1)(a) above to be funded from general revenues of the States as described in Sections 6.2 and 6.3 of the report of the Employment and Social Security Committee;

(4)(a) the Employment and Social Security Committee be charged with making the legislative and administrative arrangements to bring the system into effect;

(b) any Committee developing a strategy that will have an impact on the income support system be charged to liaise with the Employment and Social Security Committee.

EMPLOYMENT AND SOCIAL SECURITY COMMITTEE

REPORT: PROPOSALS FOR A SYSTEM OF INCOME SUPPORT

1. Introduction

Benefit reform is never easy. There is the desire to keep the system simple, but where the system is the last resort, there is also a pull to add complexity in order to meet every eventuality. No-one wants to create a culture of benefit dependency, yet there is a need to achieve a level of financial support high enough to provide a basic standard of living without it being so high as to undermine the incentive to work and save. In Jersey this has to be achieved within the Island's existing and future means. The ultimate aim is that of reducing poverty in the Island.

2. Executive Summary

- 75% of households in Jersey are able to support themselves. The remaining 25% will require ongoing support or help at certain times. In 2004, £51 million was spent supporting households through a range of means-tested benefits.

- Based on available research, the incidence of poverty in Jersey is close to the European average, but the severity or depth of poverty is less (despite spending less). Having reviewed the current systems, the Committee has concluded that overall, they contribute to the low level of poverty. Nevertheless the systems are difficult to understand, do not always target money to best effect and cause much duplication of effort and frustration amongst those trying to get support at difficult times of their lives.

- The Committee concludes that there is a need for change and proposes a new Income Support system to replace the existing Welfare, Housing, Educational Maintenance Grant and non-contributory benefit systems. Each of these means-tested benefits has its own income test and policies and the combined effect is an uneven distribution of resources and some disincentives. Replacing them with one benefit and one consistent income assessment will create a fairer, more transparent and accessible system which could be the foundation for the drive to eradicate poverty from Jersey.

- The report sets out a framework of eligibility criteria, rights and responsibilities, including a more consistent focus on self-responsibility and work, wherever possible.

- Support will be available to people from the age of 18 who have been resident in the Island for 5 years and whose income is insufficient to sustain an acceptable living standard. It covers people both in and out of work though there will be an absolute requirement to work, or seek work, unless the person is caring, sick or retired.

- The Income Support for each household unit will be calculated by adding up different components relating to the individual and family circumstances, such as for day-to-day living and housing costs and, extras, as needed, for disability, carer and childcare expenses, then, deducting a proportion of all income (with separate rules for capital) to give a modest incentive to work and save. The remaining amount would be paid as Income Support.

- The new system will introduce –

  – Four levels of support towards the additional costs of disability for low income groups, the two highest based on the level of care required and another two levels where a disability incurs a cost when compared to someone of the same age and sex.

  – A Carer's Allowance to anyone, (of any age), on a low income caring for a severely disabled person. At the same time, the current Invalid Care Allowance, which protects carers of working age, will be retained.

  – More directed support towards health costs, particularly to help low income families, and for those with chronic health conditions (through the Health Insurance Scheme), at times when they have high costs.

  - An improved contribution towards registered childcare costs to enable low income parents to work and train for work.

  - A Citizen’s Fund to help with exceptional expenses that may not be covered in the regular Income Support payment.

- If the numbers of people falling into the ‘last resort’ or ‘safety net’ Income Support system are to be kept as low as possible, then the Social Security Contributory Insurance scheme must retain a very strong role in keeping people out of poverty, supported by policies on Employment and Economic Growth to provide the jobs, security and earnings on which people can live.

- The high cost of housing and rentals remains the single biggest challenge for many, even with a reasonable wage or other income. It is this aspect, more than any other which will drive up numbers of households needing Income Support.

- Working to the actual expenditure levels in 2004 across Welfare, Housing and non-contributory benefits (£51 million), current estimates indicate that over 7,000 households could qualify for the proposed nev Income Support.

- Moving from the old system to the new will be a step change that will require protection for some households which may be affected by the change. The Finance and Economics Committee has agreed that this protection is necessary and should be tailored to fit the circumstances of these households at the time that the system is implemented. Further detailed information will have to be collected to achieve this aim but an estimated additional cost of £20 million over a number of years for protection has been approved in principle, by Finance and Economics.

- Protection should also be afforded to income support claimants for any increased living costs generated by the introduction of GST, if approved by the States. The report of the Finance and Economics Committee (P.44/2005) proposes an additional sum of up to £2 million for this purpose.

- In conclusion, the Committee is working towards the aspiration that all people in Jersey have a decent standard of living, with enough money to pursue modest activities that allow them to participate in society.

3. Background

A major review and reform of the Social Security Insurance system took place in the late 1990s, in order to update and strengthen it in the light of demographic and social trends.

This reform highlighted the need to review the underpinning “safety net” system – a wide range of means-tested benefits which had grown up in an uncoordinated way under Parishes (Welfare Grants), Housing (Rent Rebate and Abatement schemes) and Employment and Social Security (family, healthcare and disability benefits).

Not surprisingly, it was found that this means-tested system produces some inequities and ‘disincentive’ effects across lower incomes as a result of the different policy intents behind each of the benefits with their own rules and means tests. The interface with the income tax system was also identified as creating further complications.

In trying to address the issues raised by the last review, the then Benefits and Welfare Working Party concentrated on improvements to the existing system. These included reforms to modernise the Welfare system and initiatives of the Social Policy Strategy Group to plug identified gaps in provision such as for home adaptations, special dietary and equipment needs, and dental, optical and chiropody care for the elderly. Assistance with the cost of childcare through the tax system and childcare allowance schemes were also approved by the States.

However, it was eventually realised that improvements to the existing system could only go so far and that if it was to be further improved, then major reform would be required. The Employment and Social Security Committee lodged a Report and Proposition (P.44/2000) "Minimising Material and Social Deprivation: Low Income Support" outlining proposals to abolish all existing means-tested benefits and replace them with a new income support system. As a result, the States charged the Committee with identifying the likely effects of such a system and to report on the financial, legislative, manpower and administrative consequences, and to make recommendations.

Subsequently, a Steering Group was formed of representatives from all interested Departments and Parishes to share knowledge of the different systems and develop a new approach. The Steering Group was supported in its work by Professor Robert Walker (University of Nottingham and Institute of Fiscal Studies) and the Centre for Research in Social Policy (CRSP), Loughborough University.

The Steering Group produced its first report in September 2001 and set out the following Vision: "*Income Support should seek to guarantee an adequate standard of living for all*". The Group noted from its research that: "*Policymakers throughout the industrialised welfare states are facing pressures to devise integrated approaches to targeting and confronting disincentives, inhibit fraud, limit transaction costs, avoid stigma and promote transparency in decision making ………….. there do not appear to be, as yet, fully integrated approaches that could provide a model of good practice for Jersey*".

The Steering Group identified key policy issues and considerations on which direction was needed to enable Jersey to develop its own system. The issues raised at the time were substantial ones, including the qualifying period for Housing Benefit, (since reduced from 20 years to 15 years), immigration, health and other matters an also the level of household budgets from which benefit levels could be determined, (subsequently researched by CRSP). The main policy issues were described more fully in the report "Aiming for a Fairer Society" put together by Professor Walker and published at the end of 2001.

In the absence of clear policy direction on the key issues mentioned above as well as fundamental aspects such as information on the causes of poverty and social exclusion in Jersey, the Group found that it was unable to take its work forward.

A review of data available at the time showed that it was not adequate to develop and cost a new system. It was some time before funding could be made available, but an income distribution survey was finally commissioned by the Policy and Resources Committee in 2002. It was a major exercise, this being the first time such a survey had been carried out in Jersey. Reports were received in September 2003 and July 2004, enabling a computer model to be built recently by Oxera to help cost income support proposals.

The Committee made use of this time in between to commission other work to support the development of a new system, consult and build a general consensus. The Committee also took the opportunity to carry out a "Policy Review of the Social Insurance system in Jersey" and presented an interim report to the States (R.C.49/2004) together with a progress report on Income Support (R.C.48/2004) in November 2004, which helped to bring together all the issues and enable a wide body of Stakeholders, and States members**,** to comment on emerging ideas.

The Committee acknowledges the support of the many people and organisations who have contributed in putting forward its proposals. Before doing so, the next section sets the context and summarises main conclusions from research undertaken to date.

4. Context

4.1 Critique of existing Income Support System

The following observations and research on the current system have influenced the Committee in the design of the proposed new Income Support system. While the critique focuses on the need for change, it is important to remember that the current system also has some good aspects. This is borne out by the less severe relative poverty there is in Jersey, though the favourable economic climate, high levels of employment and tax thresholds must also have contributed to this situation. Nevertheless, the sense of exclusion amongst some of the population in Jersey is very real as is the gap between the less well off and rich people in our society.

4.1.1 Welfare

The Parish Welfare system, originally set up to help the "needy" born within the Parish, is currently the Island's main "safety net". Help is now also given to "non-natives" who have been resident more than 5 years (or 10 years for people coming to Jersey after the age of 55). A living allowance is set and a rental component paid where necessary. The total amount depends on the family set-up, and on household income and savings. Rates are such that only those unable to work, or people on very low incomes, receive support. The largest single group receiving welfare support is pensioners.

The closeness of the Parish to its Parishioners is a strength in many ways. Though administration is carried out individually by each of the 12 Parishes, a common application form, standard rates of benefit and guidelines on the use of discretion have been agreed. Nevertheless, there is still a perception that there is not always consistency in decision making across all Parishes and that there is some stigma attached to claiming welfare which may affect take up.

4.1.2 Family Allowance

When introduced in 1951, Family Allowance was paid to all families with 2 or more children. It changed in 1972 to provide a contribution to the cost of bringing up children based on an income assessment. The income test was linked to the income tax assessment and so based on historic, not current, income. Originally there was a direct relationship between the tax system and family allowance in that there was an income point at which Family Allowance ceased to be paid and Income Tax began to be paid. The scheme was altered over the years, to direct payments to the first and second children in a family and, to give a weighting to single parent families. Changes to the income tax structure, particularly the allowances for married couples, also meant that the link between the tax system and family allowance was lost. A group of families was created that were technically "too poor" to pay tax but "too rich" to be paid through the Family Allowance system.

The crucial disadvantage with the Family Allowance system is that it does not meet immediate need, being based on an historic income and cannot therefore, react quickly to changes in income or family circumstances. Attempts to change the system (for more extreme cases of redundancy, and change in family constitution), have led to difficulties with overpayments of the allowance.

In short the Family Allowance Law works well in cases where families have a persistent and regular relatively low income but it does not provide the financial support necessary to meet changing needs in families with children.

4.1.3 Childcare Allowance

Childcare 5 to 12 years scheme

Under this scheme, private providers receive funds to subsidise the after school and non-term-time care of children from lower income families. The Jersey Child Care Trust administers the scheme on the Department's behalf and processes the grants to the private providers based on the number of children being supported. The extent of subsidy is dependent upon the family income, with a greater discount (up to 60%) being available the lower the family income (the highest discount being available to families with income below £10,000). The number of children supported by this scheme continues to grow each year, and generally, it has been assessed as an effective scheme in providing care, supporting families, and giving the opportunity to work. There are some concerns that the discounts are insufficient for those on very low incomes to bear the cost of childcare.

Childcare 0 to 5 years scheme

The 0 – 5 scheme is a direct benefit payment, based on childcare costs incurred and paid in arrears, for families below the tax thresholds who are in work. It is administered by the Employment and Social Security Department.

Assistance continues into the income tax bracket in the form of a tax deductible childcare allowance. The number of beneficiaries has reduced for some years, and currently only a small number of families claim this support. Some have moved into the tax bracket as personal allowances have been frozen and earnings have risen, and therefore claim the tax allowance instead.

At the same time, because of budget constraints, the level of benefit support available (up to £110 per child – maximum of 2 children) usually represents a proportion of the costs of childcare and could deter families from joining the scheme as the net benefits of going out to work may be insufficient. (Currently the average cost is £3.42 per hour in private nurseries.) The scheme does not cover childcare costs for those undertaking training although such costs are sometimes covered by Parishes for those on welfare.

Some parents may delay returning to work until the youngest child is at school. This is borne out by the increase in numbers accessing the 5 – 12 scheme. Recent reforms to the Social Security system enable parents to make choices as contribution credits are awarded to the parent staying at home to look after children up to the age of 5 years.

4.1.4 Disability Benefits

There are a number of Disability Benefits targeted to people with a range of disabilities.

Attendance Allowance, introduced in Jersey in 1972, was intended to compensate for the extra cost incurred by being severely disabled, similar to the benefits in the U.K. However, in Jersey, entitlement was defined as requiring “assistance by day ***or*** night” instead of “assistance by day ***and*** night” as in the U.K. At the time of the debate, both means-testing and a universal approach were rejected in favour of a simple income bar. The income bar was set at a relatively high level and has been increased annually since 1972.

Children over the age of 4 can receive the allowance, but in general terms the benefit is paid to the elderly (73% of the total number of claimants). Over the years since its introduction, a number of issues have arisen around the income bar, and whose income should be included in the definition of family income, when a relative lives “en famille”. The allowance is poorly named in that a person who has no attendants whatsoever can receive the benefit.

Overall, this benefit works for long-term chronic situations but, it does not lend itself to very acutely ill cases whose need for attendance may only be for the last few days/weeks of life. Attached to this benefit, there is an Invalid Care Allowance, introduced in 1978, for carers under the age of 65 discussed later in this report.

Disabled Child’s Allowance was introduced in 1978 to recognise the potential additional cost of bringing up a child with a disability. Over the years, the determination of this allowance has been difficult (albeit that numbers are small), as it requires distinguishing between disability and illness. This is made even more difficult when some perceived minor long lasting conditions can be controlled in children with treatments that may seem disproportionately expensive, whereas more serious conditions may have less cost implications. The same income bar that exists for Attendance Allowance is used for Disabled Child’s Allowance but, unlike Attendance Allowance (which was subject to change through a private member’s amendment) the income to be assessed is that of the family, not solely the child.

The thrust of the legislation was to provide some financial help for those people disabled from birth through their childhood. This theme continued into Disabled Adult’s Allowance which can follow in continuation from Disabled Child’s Allowance, if a congenital disability for example does not allow a person to take up employment. The test of disability means that a person is incapable of taking up paid employment and that the person cannot claim Social Security benefits as contributions have not been paid. In the early years, the take up of this allowance was low, with few people benefiting. However, numbers began to increase when married women, who had opted out of the Social Security system many years earlier, began to claim. Only 21% of claimants are male.

One of the difficulties of the Allowance is the disincentive of losing all benefit if any attempt at work is made. The fear of failure, and the subsequent re-qualification period, is often cited as a disincentive even though the advantages of entering the Social Security system, and paying contributions to gain benefit and pension entitlement are clear. Again, the same income bar as that defined in the Attendance Allowance legislation is used.

The most recent of the disability benefits, Disability Transport Allowance, has origins dating back to the 1970s and the U.K.'s Mobility Allowance. In 1988, the States approved a 25% increase on all non-contributory disability benefits, rather than the introduction of a Mobility Allowance, on the basis that likely claimants would already qualify for existing benefits, and that all should benefit, not just those with mobility problems. The Finance and Economics Committee of the time warned that even though this increase was approved, it would not stop further calls for a mobility allowance. This was the case almost immediately and over three States debates, the Employment and Social Security Committee's original proposals were amended to the system that exists today.

The original proposals were for a system targeted to people under the age of 65 who were not in residential or nursing care. The benefit had 2 rates: a higher rate for those in work; and a lower rate for those not in work. In policy terms the benefit was there to help those people with disabilities who had difficulty getting out and about. This policy was translated into a basic qualifying criterion of a person unable or virtually unable to walk. During States debates, the scheme was made into a single rate benefit available to people with disabilities, regardless of age and whether in care or not.

With 3,000 claimants, and a cost of £6 million a year, the benefit is the most criticised benefit of all with perceptions of waste, misuse and over-provision. A review of the benefit clearly demonstrated that, whilst a valuable aid to mobility for some, the allowance had become an additional living allowance, often used within the household budget rather than specifically for transport.

The largest group claiming the allowance is the elderly who have difficulty getting out and about rather than people who have a specific disability.

4.1.5 Carers

Invalid Care Allowance is paid to people who give up the opportunity of work to care for a disabled person who is so severely disabled that they themselves are in receipt of Attendance Allowance. The benefit is a "compensation for the loss of earnings" and, at the same time, money is paid to the Social Security scheme to protect the pension position of the carer, for the period of time the caring is undertaken. It currently ceases at age 65, even if caring continues. This can mean a reduction in income at age 65 for some carers depending on the level of entitlement to a Social Security Pension.

In the reforms of the Social Security system following "Continuity and Change", the rate of Invalid Care Allowance was increased considerably, from £203 to £494 a month in 1999. This increase brought the allowance to the full rate of benefit or pension, which recognised the social values of foregoing work to care, the need to move away from the idea of dependency in such cases and to continue to protect pension entitlement. This reform has been well received by such carers.

4.1.6 Housing

Housing Benefit is a major element of the existing benefit system, accounting for over 40% of the overall income support expenditure in 2004.

Concerns about this cost have been expressed in many quarters. Some believe that the existing system of Housing Benefit acts to inflate the level of rentals within the local market. Others are of the view that costs are primarily the result of an imbalance between supply and demand.

The Housing Committee has responsibility for the number of public-sector properties available for rental and any housing policy which may or may not control rentals in the private sector. The fact is that the costs of property and rentals are high in Jersey and help towards housing costs will continue to make up a large part of a budget of any Income Support scheme whilst they remain so.

One cause of hardship in the Island in relation to housing costs has been the lack of support available to residents without residential qualifications. The Housing Committee has already made much progress in this area with consecutive reductions in the qualifying period from 20 to 15 years. The length of this qualification period causes difficulties in merging the Housing Benefit system with the other means-tested benefits which have varying qualifying periods: Welfare and HIE are 5 years, but Family Allowance is only one year.

There are other differences between housing and the other means-tested benefits. The Rent Abatement and Rebate schemes create a limit on the percentage of income to be paid in rent, with no regard as to whether the income left after rent relates to a household's needs. Parish Welfare, on the other hand, seeks to provide a basic living allowance for households in need, but will pay rent to preserve a basic income within a household. Family Allowance seeks to help low income families with the cost of raising children and various Disability Benefits provide support with the additional cost of chronic disability.

Also, unlike Welfare Grants, for example, the Housing Committee does not impose any requirement to seek work if unemployed, nor any requirement for either or both adults in a family to seek employment, once the children reach a certain age.

Finally, the existing Housing Benefit system requires single tenants to be aged 25 years. There is discretion in certain circumstances such as when the person has started their own family. This age limit is set at a relatively high level to discourage young adults from leaving the family home, finding they cannot afford to do so, and attracting a rental subsidy for themselves. The Welfare system will generally accommodate people over 18 and the non-contributory (Social Security) benefits relate more to the circumstances rather than age.

4.1.7 Health

For people in normal health and with reasonable means, the current health insurance system works well in mitigating the cost of G.P. services and prescriptions. Similar "co-payment" or user charge systems of funding are used extensively throughout the world. The underpinning Health Insurance Exception (HIE) scheme ensures those unable to work (largely, long-term sick, single parents and pensioners), with relatively low incomes, can access free health care. This works well for those in the HIE system but creates difficulties in managing demand and inequities across the population as a whole. There is no HIE provision, for example, for (full-time) working people with low incomes. In addition, the Health Insurance system is outdated, being based on the old Beveridge model of the male bread-winner. This makes targeting specific individuals impossible, leading to a degree of inequity between similar families containing chronically ill members. It is also known that low income families can find health costs difficult at times, particularly for their children.

In terms of the help for the chronic sick, who are not covered by the HIE system, the Health Insurance system is perverse. The subsidy and patient cost is driven by the number of visits to the General Practitioner, so more visits result in more subsidy but also in more cost to the patient.

Finally, some people perceive a stigma attached to HIE whilst others are keen to acquire the benefit which has become a 'passport' to many other benefits over the years, thus creating even more inequalities.

4.1.8 Educational Maintenance Grant

Educational Maintenance Grant (EMC) (not to be confused with Student Grants), is paid to children between the ages of 16 and 18, who stay on past the compulsory school leaving age that might have otherwise left school to take up employment. With the widespread increase in 'post-16 education' take-up, this incentive may be unwarranted. The grant, paid to the student, is an incentive not to work and, being subject to an assessment of household means, does not fully compensate for 'lost earnings'. Payment is also subject to adequate school reports, and therefore, is not the same as Family Allowance payments which can be paid to children at school between ages 16-18. Clearly, however, there is some duplication and whilst the benefits, Family Allowance and EMC, serve different purposes, and potentially slightly different child populations, there would seem to be merit in bringing EMC into the Income Support system within an increased 16-18 child component.

4.2 Research

Drawing on information from several studies the main observations are –

- The incidence of poverty in Jersey is close to the European average but the severity of poverty is less (Hart 2005); the definition of poverty used here is the widely accepted measure of household income of 60% (or less) of the median income.

- Spending on social protection as a percentage of its GDP is less in Jersey than any other European country. In this context, the higher tax thresholds and lower levels of personal taxation than other EU countries have to be taken into account. Within the overall spend, on a per capita basis however, Jersey's expenditure on housing is comparatively high whilst expenditure on sickness, healthcare and disability is close to the European average. Expenditure attributable to families and children, old age and unemployment is less (Hart 2005).

- The relatively high cost of housing disproportionately affects those at the lower end of the income scale. The comparison of households living in relative poverty indicates that the cost of housing is a significant factor in drawing households into poverty. Before housing costs are taken into account 16% of households live below the relative low income threshold (U.K. 17%). After housing costs are included the figure rises to 24% (U.K. 22%). (Income Distribution Survey (IDS) 2004).

- Jersey has a high labour market participation rate amongst men and women. This means that most people are contributing to their own upkeep even if they are not able to earn enough to meet their basic needs. In Jersey, more women and men of working age (16-59/64 years) are economically active (i.e. in work or looking for work) than in the U.K.; the rate in Jersey is 4 percentage points higher than the U.K., for both genders (87% compared to 83% for men; and 76% compared to 72% for women) (2001 Jersey Census) (IDS 2004).

- The largest relative low income groups are single parents and single pensioners, with 64% and 45% of each having a household income that is 60% or less of the Median household income after housing costs (IDS 2004).

- There are inequalities in the current systems, including access to health care and the cost of housing to people without qualifications, which lead to specific poverty issues. Because Income Support is currently made up of a number of disparate systems, it is not user-friendly and lacks flexibility to deal with all situations (Walker 2001).

- The number of separate systems means that administration is disjointed, with the same information often being collected in different Departments, leading to duplication and difficult access for the customer (P.44/2000).

- There are various rates of marginal tax, or marginal deduction rates (MDR) across the benefit and tax systems which act as disincentives for some to enter employment or increase earnings (Task Group on Marginal Tax Rates 1998).

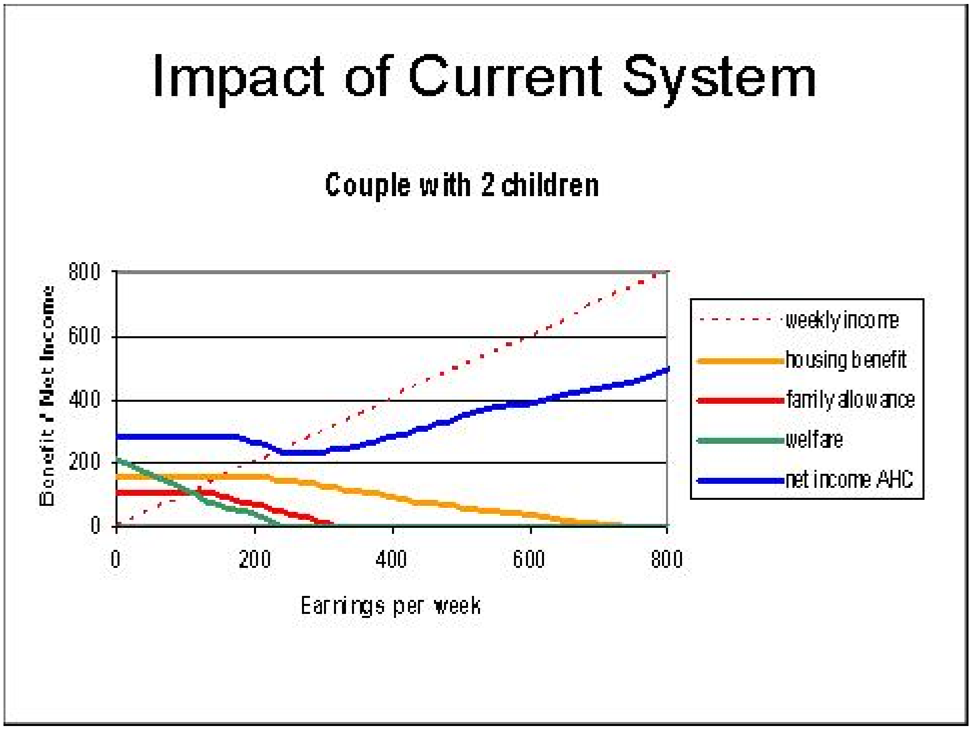
- The threshold levels of the taxation system are higher in Jersey than the U.K. (Jersey Budget Book 2004).

- A review of other systems and experiences indicates that there is no suitable template for Jersey to adopt. Income support systems around the world have developed in response to specific national economic, social and cultural circumstances. Therefore Jersey must develop its own (Centre for Research in Social Policy 2004).

4.3 The combined effect of the existing Income Support Systems

The combined effect of the various benefits described above is that net income can vary depending on the different combination of benefits claimed. The schemes are administered by 4 organisations and each applies its own rules, without regard to the overall effect on the claimant. There is therefore duplication of effort in claim processing, the capturing of data, payment and other aspects such as reviews and detection and prevention of fraud. For the customer, the system is inflexible and difficult to understand, with benefits not always directed to those in most need.

The overall result is shown below.



The graph illustrates the disincentives that a two-child family might meet. The blue line shows the family's income after housing costs have been deducted. Initially it is straight, as Welfare supports up to a defined income level. As income increases above the level of Welfare support, the family is still receiving Family Allowance and Housing Benefit. But as their income increases, both these benefits reduce at the same time but at different rates, so the disposable income is less. The green and red lines show the tapering-off of Welfare and Family Allowance as income increases. The orange line shows the comparatively generous tapering of the housing subsidy, so much so, that some recipients of housing subsidy are paying Income Tax.

5. The proposed new Income Support System

5.1 Purpose

The Committee is of the view that the main purpose of the new simplified system should be to help and enable people to –

- avoid poverty, and
- take appropriate actions and life decisions to get out of poverty.

It should also provide a firm foundation on which the Island can work towards the eradication of financial and social exclusion in the Island.

5.2 Principles

The Committee set the following overriding principles for the design of a new Income Support system. The system should –

– be effective in tackling real needs;

– promote work;

– encourage self-reliance;

– be easily understood and accessible;

– be equitable, consistent and sustainable; and

– take account of the whole needs of the family.

Real needs have to be tackled effectively to give more immediate support to families on low incomes and, specifically, to encourage higher take-up amongst low income pensioners.

People will be encouraged to work to support themselves when capable of doing so and keep their affairs in order and plan for retirement wherever possible.

In designing a more accessible system, the Committee recognise that there may have to be some ‘trade offs’ between simplicity versus complexity. The new system must strive to be fair to the community as a whole, striking the balance between individual, taxpayer and State, and must be sustainable now and through the demographic changes ahead.

The system will be based on a common philosophy of award based on need, a common assessment, and one administration and will take account of the needs of the whole family.

5.3 The proposed system

5.3.1 Income Support Assessment: Context

Any general income support system must work with the contributory Social Security Insurance scheme and Income Tax system. The contributory system promotes work and encourages people to save for times when they are unable to support themselves through work, retirement, sickness or maternity. Ultimately, there will always be some who fall through this first tier for whom the income support system is the safety net. It is important to get the balance right between the two.

The relationship between Income Tax and both the insurance and income support systems must ensure that there are incentives to increase income and that there is sufficient disposable income for families to live on. The ideal interface would be a period of increasing income after exiting Income Support before entering the Tax system. This would imply that the components of the Income Support system should be closely related to the Tax thresholds in the Tax system. It would also avoid the current situation where the States, through benefits, give households direct financial support yet, through direct taxation, require the same households to pay money back to the States.

At this stage, without States approval of a new Income Tax structure, it is difficult to put forward proposals on the interface. This will have to be developed as more detailed decisions are taken by the States.

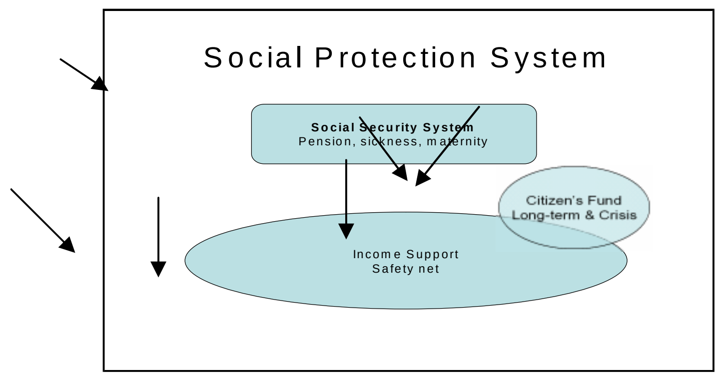
5.3.2 Income Support Assessment: Summary

In broad terms, the proposed assessment consists of a series of components to meet day to day living costs such as for food, clothing and housing. Further components may be added in respect of additional needs such as for disability or childcare. The benefit entitlement is calculated specifically to each household’s particular circumstances. For example, a married couple with a child and with no other costs would have 2 components: one for a couple, and an additional component for a child. If both parents were working, and needed childcare, an extra childcare component would be added and if the family were in rented accommodation, a further housing component would be added. The resulting total of all components would be the maximum Income Support benefit for the family.

The total income of the family (net of social security contribution payments) would also be calculated with a proportion of the income (the Marginal Deduction Rate, MDR) and savings being exempt. The remainder of the income would be compared with the maximum Income Support total. If the net income is under the maximum level of Income Support, then the difference would be paid as Income Support.

Recognising that it is not always possible to save for larger household items or in case of emergencies, it is also proposed to set up a Citizen's Fund to help meet these costs either as one-off payments or on a loan basis.

The diagram below illustrates the complete system of financial support for social protection. Residents may enter the system through various routes. For example, they may receive a pension through the social security scheme, but support for a disability through Income Support. Those who have not been able to work and receive help through the social security scheme may access Income Support or the Citizen's Fund directly.



5.3.3 Income Support: the detailed proposals

Income Support will replace the present housing subsidy, Welfare, Educational Maintenance Grants and a number of non-contributory benefits administered by the Employment and Social Security Department. Other non-contributory benefits such as Invalid Care Allowance and Christmas Bonus will remain.

5.3.3.1 The Household Unit

All safety net systems consider the pooled income of the family unit. This is in contrast to social insurance systems which target the individual based on contributions paid.

However, some family units may also contain other (non-dependent) adult(s). For example, an older child still living at home and working. There is an expectation that they are contributing to the housing costs which would have to be accounted for in the family assessment. Alternatively, an elderly relative living with family may claim independently as their children would not be expected to meet the basic living costs of their parents.

The States have already agreed, in principle, that adult children should not be financially responsible for the welfare of their parents (P.236/2002), hence elderly dependents will be seen as separate households. This principle will have to be incorporated into the Income Support legislation.

The system should be neutral to gender and marital status.

5.3.3.2 Age

The Committee proposes that there be a minimum age of 18 at which the living allowances may be claimed. In normal circumstances, the full range of benefits, including the housing component may be claimed from the age of 21. However, younger adults may be given full support in certain circumstances, for example when they have their own family.

The current Housing Benefit excludes single adults under age 25. Parishes, on the other hand, may give some help to young adults from the age of 18. During the consultation process, there was a general feeling that 25 was too high and that qualification for Income Support should start at age 21. Setting a general limit any lower than this may encourage welfare dependency among some of the young. However, the Committee understands that it needs to be aware of the specific needs of young people between the age of 16 and 21 and will work closely with appropriate agencies to provide support as required.

5.3.3.3 Residency

The Committee proposes that claimants for Income Support should be both resident and present in Jersey for 5 years prior to the claim. Most countries have a time requirement for access to income support systems. The existing Welfare system in Jersey stipulates 5 years. Most taking part in the consultation process thought this to be a reasonable starting point for qualification in the new system. Some, however, would like to see that period reduced when it could be afforded.

It is usual to have exemptions from presence for short periods and the Committee suggests a 28-day period be allowed without loss of benefit, though longer periods would be appropriate for special reasons such as ongoing medical treatment. In addition there may be some special arrangements through Reciprocal Agreements with the U.K., where people would qualify before the 5 years for some benefit components. Special arrangements may also apply for those serving in H.M. Forces and students.

5.3.3.4 Seeking work/in work

With rights to Income Support come responsibilities on the claimant's part. The key responsibility is to be working or actively seeking work or appropriate training. This responsibility may be waived with good reasons such as being too sick to work or over 65 years old, caring for a child under 5 years or someone who is severely disabled.

During presentations to Stakeholders it was accepted by virtually everyone that, if there were no special circumstance, then it is reasonable to expect all adults in the household to work or be seeking work. Again from the consultation there is a clear consensus that caring for a young child (under 5 years) is a special circumstance. There was some sympathy for increasing this to children up to 11 or higher if the child had a severe disability. The Committee is of the opinion that initially, the system should recognise that caring for a child under 5 years is a special circumstance and that this should be extended where appropriate, for example where the child has special needs. The requirement to work means that those who are not employed and not incapacitated or exempted through special circumstances, must work or demonstrate that they are "actively seeking work".

In reviewing the requirement to work, the Committee considered the approach used in Guernsey of capping benefit award to a maximum of £275 per week, regardless of household circumstances. It is the Committee's view that this is too punitive, particularly for families and would create disincentives.

In general, the Committee support the view expressed by CRSP (2004) that *"In Jersey, unemployment is a relatively recent phenomenon and remains at relatively low levels so that the issue of work incentives might not be as important here as in societies with higher levels of unemployment."* In summary, Jersey already has a strong work ethic and the Committee would want to maintain this.

5.3.4 The assessment

5.3.4.1 The components

The Committee is recommending the following components –

	• Single or Couple rate • Lone parent • Additional adult

Individual component	
Child component	• 0 – 15 years • 16 – 18 years
Extra components	• Childcare • Disability – 4 rates depending on impairment • Carers' Allowance • Housing (based on a fair rent system)

- Setting the level of components

The individual and child components are to cover day to day living costs and the Committee has looked to other jurisdictions for guidance on the setting of the base figures.

It would appear that there are various approaches. Some countries use historic levels based on no specific criteria, similar to the Parish Welfare Rates in Jersey. Alternatively, they may be set in relation to other figures such as the level of minimum wage or on economic data which measure essential needs or lay down minimum living expenses.

The starting point in Jersey was the existing Welfare Rates but in order to test these levels, the Committee commissioned work from the Centre for Research in Social Policy (CRSP) at Loughborough University to develop household budget standards for households with and without children and for household members who have a disability. CRSP used a consensual basket of goods methodology, a method by which groups of individuals meet together and agree a basket of goods necessary for a modest but adequate lifestyle. These budgets itemise essential food, clothing and other costs, including transport costs for adults and children and the additional costs of being disabled within these categories. CRSP included an additional element which costs other aspects of day-to-day living such as activities and holidays which may not be regarded as essential but helps to minimise the sense of exclusion. The advantage of this approach is that the budgets are devised by people themselves, rather than in isolation by policymakers. In considering what level to use when the Income Support system is implements (if approved by the States), the Committee would propose a prudent beginning, with a living allowance above the Welfare level. Over time and as the system matures and economic circumstances allow, the living components can be increased further to support the States objective of working towards the eradication of financial and social exclusion.

The budget standards will have to be agreed prior to implementation in 2007 and following more detailed examination of costs once the States have approved the overall framework and policies in principle. These will be subject to debate through Regulations.

After implementation it will be essential to regularly review and re-price the contents of the basket of goods. This is likely to be done every 5 years. In the intervening years, it is proposed that the components will be increased ir line with the underlying rate of inflation as measured by the Retail Prices Index (X), which is the Retail Prices Index excluding house purchase costs.

- Individual/Couple

The original CRSP report was based on adults in different family situations but the resulting budgets were at similar levels although expenditure within differed. Therefore the Committee believes that one standard rate may be used for all household types. In particular, CRSP examined the needs of those over age 85 and found that again, although people spent their money on different things, the total amount required for a modest budget was similar.

The Committee proposes that the rate for the second adult in a couple is the equivalent of two-thirds of the individual component. This recognises the additional cost of food, clothing, etc. for the second person, but also that other costs are shared.

However, there was an additional cost attributed to being a lone parent, not in terms of food and clothing, but in the cost of running the family home, which is comparable to that of a couple. So, the Committee considers that the lone parent and the first child should be classed financially as a couple.

- Child component

There are 2 basic approaches to children's allowances, one which attributes greater cost as the child grows and another that provides a flat rate recognising that each age brings its own cost and that children grow at different rates. Provision in the Jersey Welfare Grant system for children traditionally attributes a greater cost to older children, though Family Allowance does not. The CRSP research indicated only minor fluctuations in cost through age. To maintain the simplicity of the system, the Committee proposes one rate for a child component which can be paid for a dependent child, up to the compulsory school leaving age. Beyond that age, if the child continues at school, then it is proposed that the component rate will be the same as that for an additional adult. This also provides a modest incentive to remain in education as provided by the current Educational Maintenance Grant system.

- Childcare

In line with the Committee's principles that the system should promote work, it is intended to include a childcare component that supports the cost of registered or accredited childcare for children up to and including 11 years where parents are working. The Committee also proposes to combine the existing Childcare Allowance and Welfare systems by including those undertaking agreed training linked to improving work prospects. Provision will also continue to be made, as is the present situation, to cover reasonable periods of unemployment and sickness when unable to work.

The Committee will reimburse childcare costs up to a fair hourly rate, but it is likely that there will be a maximum amount per household to maintain a balance between the cost of childcare and the financial benefits of work. The fair rate will be set by the Committee and will take account of, but not necessarily track, the average hourly rate charged by private registered/accredited childcare providers.

The Education, Sport and Culture, Committee is currently working on a new Early Years Strategy which will have to be reflected in the system.

- Disability

The disability component was considered by the States in February 2004 (P.178/2003) and has been the subject of additional consultation by the Social Security Advisory Council under the chairmanship of Jurat G. Allo. The advice of the representatives of people with disabilities has been taken on board by the Committee who are now recommending 4 levels (or components) to help towards the additional cost of physical, mental or learning disability. This component is not a compensation for the disability itself, but an acknowledgement that increasing severity of disability brings increasing costs.

The system of support for people with disabilities is complex with services and equipment at subsidised rates being supplied through Family Nursing and Home Care, the Health and Social Services Department and the Health Insurance Scheme. The disability component will therefore reflect the additional costs not met through other means, such as higher heating requirements, transport or laundry bills and the cost of ongoing support through Family Nursing and Home Care.

At this stage, the Committee proposes the following broad definitions. The 2 higher levels to relate to the degree of care required: The highest level being Very Severely Disabled, those who require assistance day and night; and Severely Disabled, those requiring care day or night. The lower 2 levels where the claimant may need some occasional assistance, or incur an additional cost by being disabled when compared to someone of the same age and sex.

It is not possible to compensate people fully for their individual circumstances, as attitudes and needs differ between individuals with the same disability so the rates will be indicative of a level of expenditure.

- Carers

Carers provide a valuable support to disabled friends and relatives and make a vital contribution to the community. The feedback that the Committee has received indicates that carers, particularly those aged over 65, feel there should be some acknowledgement of their contribution to the community.

The Committee is firmly of the view that carers, who give up work to care on a full-time basis, should continue to receive a weekly allowance at the full Social Security Benefit rate and their contributions be paid, as they do now under the Invalid Care Allowance system. This would be separate from Income Support, with the award of ICA linked to caring for someone in receipt of (or who would be eligible for) a very severe or severe Disability Component.

Within the Income Support system, the Committee proposes to introduce a Carer's component to acknowledge the role of carers in the community. This would be an amount, not related to any actual cost and available to carers, of all ages, in receipt of Income Support (including both elderly carers and teenagers helping to care for parents), and linked to the very severe or severe disability component as outlined above.

- Housing

It is proposed that Income Support takes on board the principles of the present housing subsidy, an addition being made to meet rental costs up to a fair rent level for accommodation suitable to the size of the household.

While the Housing Committee will continue to set the rents for public sector tenants, in line with housing policies, the Employment and Social Security Committee will set the rates for the housing subsidy. These rates will not necessarily track rents as they have to be set in a wider context and expenditure must remain within budget. Therefore, the Committee would suggest that future rental increases in the States Sector are made following consultation with the Employment and Social Security Committee and the Finance and Economics Committee.

For those with their own homes, a housing component may be given towards foncier rates and home insurance. If unable to make mortgage payments, the Committee would expect that an approach was first made to the lender to restructure payments. In exceptional circumstances and for a limited period, some help would be given towards interest charges but not capital repayments through the Citizen's Fund (usually in the form of a loan).

The Committee is also concerned about providing support for people, particularly pensioners, maintaining their own home, who find they are unable to afford necessary maintenance and repairs. It is proposed that a grant may be made against the equity of the property, or a loan provided through the Citizen's Fund.

It is also recommended that the new system cover those people, on low incomes, resident for more than 5 years (as the Parish Welfare system does now) who do not presently qualify for housing subsidy. The Committee acknowledges that people without residential qualifications are likely to experience higher costs of housing, but it is not reasonable or affordable, to devise a system to meet full costs, and therefore, claimants would only receive help to the fair rent level. This proposal is not the same as extending the existing housing subsidy to those who have been here only five years. The components calculated through the Income Support system are different to the present housing subsidy scheme which, if extended, would add exceptional costs.

- Health

Primary health care in Jersey is delivered through private business (general practitioners, pharmacists, dentists, opticians, etc.) with some of the costs subsidised through the Health Insurance Scheme (2% contribution rate) and subsidiary schemes funded by general revenues.

The Committee is aware of the additional costs borne by many chronically ill individuals when accessing primary health care. It believes that the fairest way to provide assistance with such costs is directly through the Health Insurance Scheme providing increased subsidies to these individuals. The Committee will bring forward separate proposals to amend the Health Insurance Law and time has been included in the Law Drafting Programme for 2005 for this purpose. This is subject to any other changes that might be made as a result of the current Healthcare Strategic Review being led by the Health and Social Services Committee.

The living component of the Income Support scheme will include an amount to meet the costs of normal health care user charges (doctor's fees, prescription charges, dental check-up and eye-test). However, the Committee is aware that ill-health is unpredictable and often people do not, or are not able to, save for such occasions. Therefore, the Committee proposes that an element of the budget could be withheld in accounts specifically for health purposes for payments directly to practitioners as and when required. Those receiving relatively small amounts of Income Support could choose to pay money into their accounts or make their own savings arrangements for doctor's bills.

The Committee considered utilising qualification for Income Support as a passport to free health care. However, experience of the HIE scheme illustrates that blanket passports lead to some applications for assistance for the wrong reasons (for example to obtain a bus pass) and is a strong disincentive to those just above the cut-off point who receive no additional help with medical costs, nor any of the other passport benefits.

The Employment and Social Security Committee has long had a good relationship with the General Practitioners (G.P.s), with informal arrangements that have worked well, and the Committee wishes to maintain this relationship. However, such are the demands of professional and financial governance for both parties that some controls and standards will need to be introduced. The HIE scheme has only worked because historically, the G.P.s have taken on some of the financial burden and numbers of claimants have been relatively small: the Committee believe this is no longer a reasonable expectation. If all on Income Support were to receive "free" health care, numbers would increase from 4,000, under the current HIE system, to around 17,000 (7,000 households). At current rates, this would cost an additional£3 million just for G.P. visits (there would also be additional prescription costs). It would cause disincentives as those at the higher end of the income scale receiving only small amounts of Income Support would lose free health care by earning a few pounds more.

The Committee also considered the question of user charges. User charges can help limit inappropriate demand, but should not be so severe as to limit access to necessary health care. Following discussions with general practitioners and others, the Committee proposes that –

- low income households are protected from the cost brought about by short periods of ill health by money held in an individual account; and

- *all* should pay a nominal charge for services (£5 per visit was mentioned for the lower income groups).

In addition to reform of the Health Insurance scheme, the Committee has given some consideration to assistance with other health care costs. While the living allowances contain some money for check-ups, they do not have sufficient monies for any costly treatments. This will be supported through the Citizen's Fund.

The Committee is of the opinion that subsidised health checks should be available to a wider group. At present, only those over age 65 not paying tax receive help through the Jersey 65+ Health Plan. In due course, it is hoped that the Healthcare Strategic Review will look more generally at both dental and eye health care. Further proposals may be brought forward in the light of that review.

5.3.4.2 Income and assets

The Committee's proposal, for which there was general agreement throughout the stakeholder consultation, is that all income (net of social security contributions) is included in the assessment and none disregarded. Disregards create problems and inequity within the present systems, where people with the same gross income (may or may not) qualify for assistance depending on how that income is made up.

However, to ensure that there is incentive to earn more and save, the Committee proposes that a proportion of the total income is exempted from the assessment calculation. This is done by using a Marginal Deduction Rate which is explained in section 5.3.5 of this Report.

Some households with relatively low levels of income have substantial, realisable assets (so-called asset rich but cash poor). The Committee proposes to take some account of assets, but not the primary dwelling. Rather than employing an asset bar, (presently, the Housing Committee use a cut off of £50,000) the Committee is proposing that a level of return on assets be deemed as income in the total income calculation. The deeming of income is a fairer system than the asset bar as support is gradually removed, rather than using a straightforward cut-off level above which no support is given.

The Committee also proposes that a minimum level of savings be exempted from any income calculation to allow the ability to cope with limited everyday risks. The present Welfare levels are £6,846 for a single person and £11,363 for a couple. The Committee would suggest raising the exempted savings to £9,000 and £15,000, but to review this situation in time (the Committee does not have sufficient data to be able to cost any increase in these levels at the present time). However, during discussions, it has become apparent that there are strong arguments to allow a higher level for pensioners who may not be in a position to increase their income. A higher level would also encourage people to save without penalty. Therefore, the levels of savings exemptions being proposed for pensioners over 65 are £15,000 (for a single pensioner) and £25,000 (for a couple).

At present, Welfare apportions an income of £1 per week to every £200 worth of savings or realisable assets above the relevant exemption level. It is important to realise that this is not meant to reflect an economic rate of return. The Committee proposes starting at this level with the higher capital exemption. In time, the level of apportionment could be changed. For this calculation, assets would include savings, for example, cash investments, second properties and items of value that could be converted to money.

The Committee would not take the primary dwelling into the calculation for an initial assessment of support. However, in cases where claimants were substantially under occupying the property or if the property itself had a considerable market value, support could not continue indefinitely and so discussions would have to take place with the individual (and their family as appropriate) to come to a suitable arrangement for each personal circumstance. For example, costs could be recovered from the estate after the death of the claimant.

As with income benefits across the world, the idea of divesting assets to gifts and other devices should not be ignored in the calculation of total income. It is the claimant's responsibility not to divest themselves of assets for the purpose of obtaining benefit. The Committee proposes that assets disposed of in the 7 years before the claim would be taken into account in an income assessment, as if those assets were still held.

5.3.4.3 Claims and payments

Once a claim is in place, entitlement will be reviewed periodically. The length of the review period will depend on the volatility of the household circumstances and may range from one to 12 months. Annual reviews will be essential as most income and expenditure changes on that basis.

In considering the make-up of the household the Committee also considered who should receive the benefit. Claimants should be given the choice, and so all adults within the household (making a claim to Income Support) would be required to sign the application form and determine the best method of payment. For example, an agreed sum of money for childcare could be paid directly to the mother who is often responsible for these costs or indeed directly to the provider. This means the system would also have to have the facility for multiple payees. However, the Committee should retain the right, through powers in Law, to pay to the most appropriate person, or direct, for example to utility companies and landlords particularly in cases where there is a dispute as to who should receive the benefit or there is a previous history of non-payment/arrears.

5.3.5 Incentives and sanctions

In developing a system of Income Support, the Committee realises that a balance needs to be struck to ensure that there is sufficient incentive for people to continue to strive to improve their own situation.

A specific issue around incentives to come out of the Committee's consultation was related to the loss of benefit with any increase in income or marginal deduction rate. Any income top-up scheme has an in-built disincentive in that some individuals question the point of earning or seeking a larger income, when that additional income is taken away through benefit loss. The Committee considered a very strict marginal deduction rate of benefit based on losing one pound for every extra pound earned. This could have 2 effects, one on the individual (why should I earn more?) and one on the employer (why I should pay more?).

Not only should there be incentive to earn more, but the Committee wishes to continue to encourage people to save and to prepare for their retirement. As previously discussed, the Committee is, therefore, proposing a marginal deduction rate (rather than arbitrary disregards with their inherent problems), which allows individuals to retain a portion of their income. At this stage, based on existing data, it is proposed this be set at a modest level, but it is anticipated that the rate could be improved after a few years depending on the rate at which the main living components are set and resources available. These parameters will be initially set and agreed by the States before implementation and after analysis of more detailed information from existing sources and consultation.

Currently, where families are receiving multiple assistance, because of the various means assessments, marginal deductions are applied at different rates across the income bands. Those on lower incomes are more affected. The cost of the marginal deduction rate along the lines of the current Housing Benefit system would be unsustainable. Therefore, although the system the Committee is proposing is not as generous as the present housing subsidy system, it is fairer as the single marginal deduction rate is consistent across the income levels.

An alternative to the marginal deduction rate would be a bonus component. For example, as in the U.K., awarding an additional amount per week when someone returns to work for a period of time. This however does not provide incentives for those in work to seek increased remuneration and may leads to problems of adjusting to reduced income when that bonus stops.

As well as incentives, sanctions may be applied. For example, where someone refuses to work or undertake training, benefit entitlement may be completely lost, suspended or at least reduced.

5.3.6 Bonus payments

The Committee also considered bonus payments, for example, the Christmas Bonus. Stakeholder feedback suggested that many people favoured the lump-sum bonus approach. It is proposed that Christmas Bonus remain outside of the Income Support system.

Some Stakeholders also favoured a winter fuel allowance bonus. The concept is already part of the current Welfare system which helps people with winter fuel bills, although currently not all Welfare recipients qualify and the amount may not meet the overall cost. The Committee believes there is merit in paying a winter bonus to help vulnerable households with the additional cost of keeping warm during the cold months. The Committee is also of the view that administrative savings could be made if the winter bonus could be dovetailed with the Christmas bonus.

The Committee also recognises that there may be situations where people in their own home would be helped by reducing heat loss from their property and so the Citizen's Fund could be used, for example, to provide a grant or loan to improve insulation.

5.3.7 Non-household groups

The Committee is also aware that there are people who do not live in traditional households, and need help through an Income Support system. These are considered in the following sections.

5.3.7.1 Residential and respite care

In 2004, approximately £5 million was spent helping towards the cost of residential and nursing care. Subsidy is to a set level (essentially a "fair charge"), with any additional costs being met by the individual or their family.

A full cross-departmental review is being undertaken regarding residential and nursing care in Jersey. There are 2 basic routes that could be adopted for the funding of these services –

- Pay as you go – individuals funding costs from income, savings and assets and the States supporting those in need;

- Pre-payment through an insurance scheme, either public or private.

Recommendations will follow pending the review, although whatever the outcome, there will still be a number of people needing help with the cost of residential and nursing care. The Income Support system will take on board the parameters of the present system and cater for those who may not be able to afford, or do not qualify, for any proposed contributory system, but who, as a result of a clinical assessment are deemed to require such care.

The Committee also considered the costs of respite care. CRSP identified this as an additional (expensive) cost to those with disabilities. However, respite is often a personal, or family, choice and it depends on the availability of respite care facilities. Therefore, rather than include some money within the disability component, when respite may not be taken, the Committee proposes that it could be paid to some people in the same way as long-term residential care.

5.3.7.2 The homeless

The assessment for voluntary homeless people would depend on the nature of any temporary accommodation they may access, such as a hostel. The aim would be to cover the daily cost of that accommodation and provide a modest amount of pocket money. The Committee acknowledges the difficulty of establishing residency for such individuals and would propose to agree a process of confirmation of residence on their behalf in conjunction with specialist agencies. Involuntary homeless people might need additional help to access accommodation, such as a deposit which could be funded through the Citizen's Fund.

5.3.8 Exceptional Needs: the Citizen's Fund

As previously described, the Income Support system is based on budgets required for basic living which include the cost of everyday items of food, clothing, heating, transport, etc. The Committee is aware that households will also have one-off expenses that are difficult to budget for on an ongoing basis if on a low income for some time. Therefore, the Committee proposes that a Citizen's Fund be set up that people may apply to for help in such situations. The Citizen's Fund would be accessible not only to all those on Income Support but also to people above Income Support who may experience exceptional expenditure or crisis. By assisting with one-off costs in this way households are protected from falling into poverty and thereafter claiming Income Support on a more permanent basis.

Support may be given, either as a one-off grant, or on a loan basis. The type of expenditure that would be covered includes the replacement of essential furniture or household items and large medical bills such as dentistry.

Award of a grant through the Citizen's Fund would be on a case by case basis pertinent to the family circumstances and need. However, mindful of the likely demand upon this Fund, the Committee proposes initially to have strict limits to the amounts paid until experience is gained to develop broader guidelines. This is supported by the U.K. experience of a "Social Fund" which has struggled to contain expenditure.

5.3.9 Non-financial support

5.3.9.1 Training and job support

The Committee has proposed a system based on all parties taking responsibility to work where possible. Over the years, the Committee has developed its work services for people who need help to get and stay in jobs. These services will be vital in relation to the new Income Support system and will have to be fully integrated into the claim and review process. There will need to be continued input into the development and promotion of training programmes under the Training Employment Partnership, so that support can be directed to those in need.

5.3.9.2 Maintenance payments

Lone parents would be expected to actively pursue maintenance payments from the absent parent. The Committee is aware that some have difficulty in securing such maintenance payments and in negotiating legal complexities. It is proposed that some administrative help and guidance should be available to support the lone parent pursue and secure maintenance payments where appropriate.

5.3.9.3 Links with other agencies

As the key aim of this system is to take a holistic approach to individual and family needs, close links will be needed with a number of other agencies, for example, Health and Social Services and the Citizens Advice Bureau, to ensure that there is continuity of support to help manage life events.

To place income Support in its wider context, the Committee proposes to work closely with the Social Policy Strategy Group, or its future equivalent to ensure that support is available to lower income households through a wide variety of public initiatives.

6. Financial implications

6.1 Financial constraints

The financial climate in Jersey has changed since the Employment and Social Security Committee started developing this income support system. In estimating the likely financial effects of the proposals the Committee took a realistic view that the cost of the new system may need to be at an equivalent level to the overall cost of the existing means-tested benefit systems (£51 million in 2004). The Committee also recognises that any change to the current fiscal strategy will have to be reflected in its final proposals.

At present, all means-tested benefits are funded from general revenues except native welfare which is funded from rates and 60% of the cost of HIE which is funded from the Health Insurance system. However, as the Income Support system will only absorb the "user charge" element of health care, it is native welfare that stands out as the only benefit not clearly funded from revenue. The Committee is aware of the Proposition of the Policy and Resources Committee to transfer the funding for native welfare and endorses the proposals which should be in place before the implementation of Income Support in 2007.

Therefore, the Committee has maintained the premise that Income Support will have to be afforded at the current benefit expenditure level. The Committee firmly believes that the basic allowance must be set at a level that is higher than the current Parish Welfare rates, as previously discussed, and the following table lists indicative component rates, at current prices (2005).

Modelled component rates 2005

Component	*Welfare*	*+5%*	*+10%*
Individual Couple	£113 £188	£119 £198	£125 £207
Child 16 – 18	£45 £74	£48 £78	£50 £82
Childcare Disability (4) Carer* Housing (e.g.)	£3.42 per hour £15 – £130 £40 £98 bedsitter		

	£200 3-bedroom flat £231 3-bedroom house

*This is not a replacement for the Invalid Care Allowance (£145.53 per week) which remains and may be payable to people under age 65 whether or not they claim Income Support.

6.2 Phasing in change

The basic policy change is to move to a more targeted system of support, more tailored to personal circumstances, which would mean that resources would be focused more acutely on those that need help. In P.178/2003 the States endorsed this principle with regard to disability benefits. The Income Support system extends this principle to the other benefits to be incorporated within the system.

When the Income Support legislation is brought into effect and the present benefits are repealed, it is proposed that beneficiaries are transferred to the new system. This does not affect the majority of households (some 26,000 households or 75% are not affected by these proposals as they are able to support themselves). Of the remaining households, some will require ongoing support and others help from time to time. With the targeting of benefit on need, this will mean that some who receive benefit under the present rules, will no longer be entitled to the same level of support, whilst others will see an increase.

The balance that the Committee, and the States, have to strike is between the protection of existing beneficiaries, both in number and rates of benefit, against the need to help those that the existing system clearly fails at present.

Such a step change involves a redistribution of benefit budgets. The Employment and Social Security Committee believes that its proposals for Income Support are fair and the principles just and would not like to see them lost through fear of change. It has therefore spent a considerable amount of time in reviewing change strategies.

6.3 Modelling

With the help of Oxera, a model has been produced using data from the Income Distribution Survey which has been reviewed against anonymous data from the Housing Subsidy system. The model has some inherent constraints as it is based on the Income Distribution Survey data, collected in 2002. There are 2 main difficulties with the data. First some of the data appears to be understated and second, the data is now quite old and will be over 5 years old by the time the system is implemented. Therefore, any cost predictions should not be taken as accurate predictions of the total cost, but rather as indicative sums which illustrate the comparative results. Indeed it is imperative that further and more detailed work be done to identify groups who may need particular support once the States have agreed the principles. This is to ensure that any transition from the old to the new system is done with sensitivity.

The relationship between rates, transition and overall costs was examined extensively. Four basic strategies were considered, ranging from a complete freezing of the existing system of benefits, through to affording protection to those receiving rent rebate and abatement only. Many different scenarios were modelled, some were clearly not affordable, and others perpetuated existing inequities.

Various viable transition strategies were then shared with the Finance and Economics Committee, and the Committee is grateful to that Committee, in agreeing that an additional sum of approximately £20 million be made available over a period of years to allow a sympathetic and reasonable transition to occur.

The transition is likely to limit any loss in benefit, provide additional protection to certain special groups and have a defined end-point (say 5 – 8 years). The Committee will come back to the States with firm proposals on the details of transition well before the implementation date once more comprehensive analysis is complete. This will be done by examining the effect on specific household groups, once the overall structure and policies have been agreed by the States.

However, as an example of the way in which Income Support could be introduced, the following table sets out the costs of Income support and additional transitional costs in one particular scenario.

Indicative support costs

Year	*Estimated budget[1] £000,000*	*Additional support £000,000*
1	53	6
2	55	5
3	57	4
4	59	2.5
5	61	1.5
6	63	0.5
7	65	0.5
Total additional support		£20,000,000

This scenario has used a living allowance at 5% above the current Welfare rates and an MDR of 90%. It has also capped the amount of benefit that may be lost by various groups. This scenario has the effect of the majority of claimants completing the change within 5 years, but some, for example pensioners, may receive protection for a longer term. It is important to remember that this is only one possible way of implementing change. The Committee's aim is to try to ensure that households affected by the change do not see a drop in actual income over the period of change. However, as stated above, the Committee will be undertaking more detailed analyses of data to come back to the States with a specific proposal.

A phased change of this nature would allow, subject to the economic climate, the component rates to be increased once the bulk of the change costs had been met. This uplifting of the rates would then make a further impact on the States objective of working to eradicate poverty, reduce the sense of social exclusion of low income families, and lift more people out of poverty.

6.4 Uprating

In basic terms, any changes to the cost of living will be reflected in an annual uprating. The Committee proposes using the RPI(X). The RPI(X), unlike the headline RPI (Retail Prices Index), does not include the cost of house purchase, so excludes mortgage costs. Therefore, is the better index to use for uprating the living allowances and disability components (the housing and childcare components will be set separately) as it directly relates to living expenditure. Uprating will be timed to co-ordinate with the States financial planning timetable.

The Committee has noted the Finance and Economics Committee's Proposition to introduce new taxes, including a Goods and Services Tax. Whichever mechanism is used, it is likely that it will impact on the Retail Prices Index as the costs are passed on to customers. This in turn impacts on Income Support claimants who have to meet additional costs from their budget.

The Committee notes that the Finance and Economics Committee Proposition states that additional funding will be provided of up to £2 million to mitigate the impact on those receiving Income Support. This may mean uprating allowances part-way through a benefit year, depending on the timing of the introduction of any new taxes and their impact on the cost of living.

Additional funding would be required to protect the standard of living of Income Support claimants in the event that any new user charge is introduced in the future. The alternative would be to create a user charge system that exempts those on income support. This would have the effect of increasing the charge to remaining households and, if applied to a number of charges, would quickly provide disincentives for leaving income support and an incentive to claim.

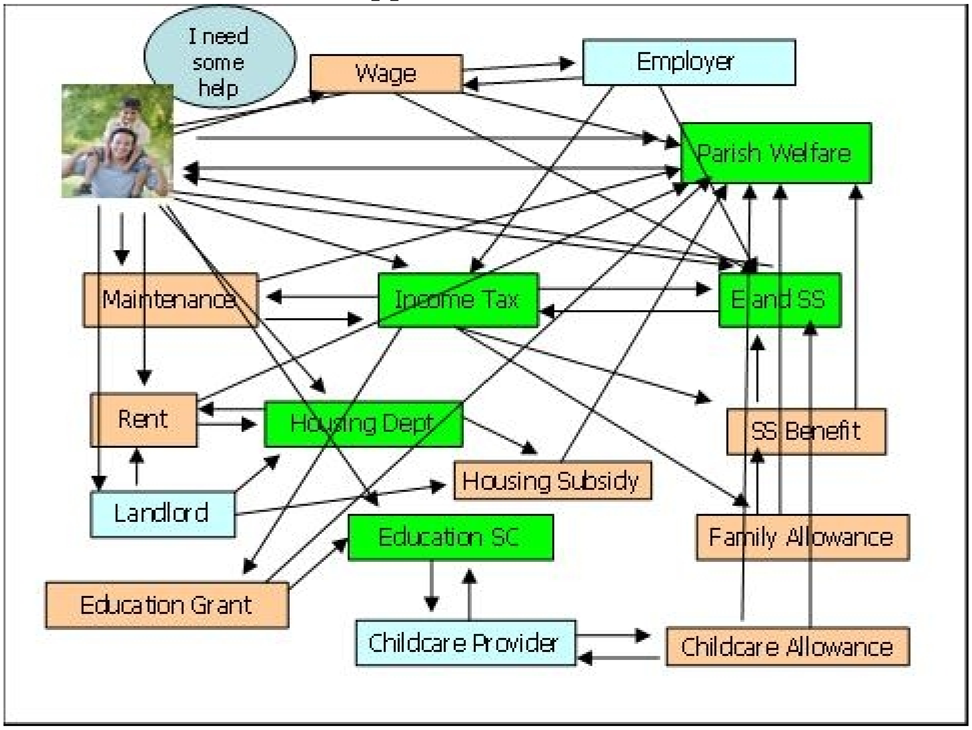
Any proposal to introduce additional user charges should thus be referred to the Committee in order to evaluate the possible impact on the Income Support scheme.

7. Administrative, manpower and legislative consequences

7.1 Administration

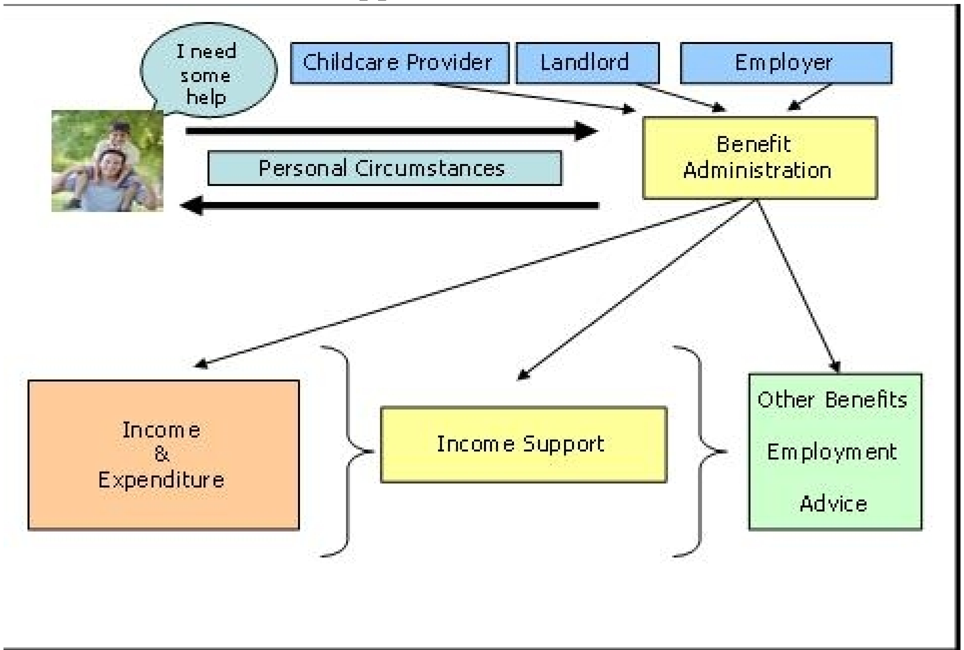
The present administration is complex and disconnected. The best way to illustrate this is in a diagram that shows how many agencies a claimant would have to contact if they require support for multiple needs and the interactions between them. The diagram considers the case of a lone parent requiring, childcare, housing and support for living costs.

Current Income Support Administration: Lone Parent



If one of the aims is to ensure that the whole benefit system is developed in a co-ordinated way and delivered in a consistent and integrated manner, then one organisation must take the overall lead and, in the interests of good governance, accept responsibility and accountability for the outcomes. This means that the lead body has responsibility for strategy and policy development and the effective delivery of benefits. Ideally, staff should be appointed, trained, developed, appraised and managed in a consistent manner. Decision-making has to be consistent and the infrastructure integrated in for example, the use of Medical Boards for advice on individual cases and Fraud Officers to prevent abuse of the whole system. Any system of financial support should “design out” as much potential fraud and abuse of the whole benefit system as possible. Streamlining the administration under one body would support this as there would be one source of data as illustrated below.

Future Income Support Administration: Lone Parent



Research shows that tensions exist in most systems worldwide where various institutions are responsible for administering different aspects of income maintenance programmes. This can lead, as in Jersey, to duplication and unnecessary complexity as well as stigmatising claimants and lack of a cohesive strategy. A recent study concluded that *'a close connection with Social Security can facilitate co-ordination between the allocation of minimum income and other benefits and helps officials to assess more accurately any other entitlements of the beneficiary…… On a more symbolic level it may strengthen the concept of social rights, with the side effect of to a certain extent reducing the effects of stigma'* (Guibentif and Bouget).

CRSP has also commented that, in a relatively small system such as Jersey, setting up layers of co-ordination may not be justified and that the importance of close collaboration between administration of benefits and Employment Services would seem to suggest that the new system in Jersey might best be administered by Employment and Social Security.

The Committee believes that the delivery of the benefit should be built with the customer and cost in mind. Feedback from the consultation, and initial analysis of the computer model, indicate that there may not be full up-take of welfare benefits now. Simplifying the claim process and the benefit system should help to improve uptake, however, the Committee considers it important to actively promote the new system in order to remove any sense of stigma and attract the hard to reach groups.

As the Employment and Social Security Committee is already responsible for the Social Security Insurance system, there is merit in the Committee administering Income Support as well. The Employment and Social Security Department already has individual records in its computer system and, therefore, can extend this to include further information for Income Support claimants to process claims and determine any other benefit entitlement. A number of Income Support claimants, for example pensioners and the sick, will also be in receipt of Social Security benefits and so a single administration would avoid multiple payments from different sources as well as making it easier to take a more holistic approach to each case.

The Committee proposes that the benefit is administered centrally, through the Employment and Social Security Department, and that all staff involved full-time in the delivery of the benefit are employed by that Department.

Unlike Social Security benefits, Income Support generally requires more personal and detailed information to be supplied initially. Ongoing contact will identify issues arising and help provide non-financial support. It is important therefore, that access and delivery to the benefit should be easy and Island-wide, allowing some customers to access help on a local basis, such as at a Parish Hall. Given the one-to-one nature of the delivery, a balance has to be struck between the cost of staffing and equipping additional satellite sites and ease of customer access. However, if the satellite offices are to provide a one-stop-shop service for all financial benefits, then staff would have to be trained to an agreed level in both Social Security and Income Support matters.

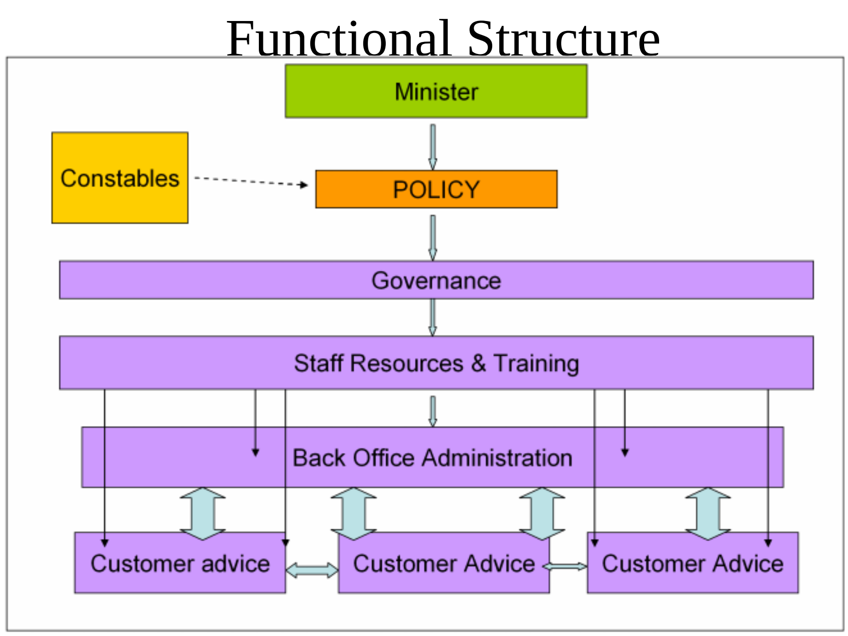
The one-stop shop approach is broadly supported by the Connétables. In-depth discussion has taken place with Parish Officers to understand the distribution of claimants throughout the Island and gain a better understanding of staffing requirements. Delivery at satellite offices can be flexible. For example, for the smaller Parishes, where it would not be practicable to dedicate a full-time officer for Income Support, it may be appropriate to enter a contractual arrangement to enable the Parish Secretaries to provide a basic, local service. Services provided on this basis would be fully supported by the Employment and Social Security Department as and when required.

Discussion with Parish Officers has also emphasized the importance of Community Visiting Officers to reach people unable to leave home. The Committee intends to ensure that this service is also provided on an Island-wide basis and fully co-ordinated with other existing community support services such as social workers and Family Nursing and Home Care.

Other administration matters are connected to the implementation and setting up of the system. While much of the labour cost can be absorbed by the Department during development, the cost of computer hardware and software would have to be funded. The Committee proposes that the system can be added to the Employment and Social Security's database which already holds data for individuals. Initial estimates suggest that software costs would be in the region of £1 – £2 million, plus some additional costs for remote connections.

Some accommodation costs may be incurred in the merging of staffing from various agencies, but it is not anticipated that there will be any additional ongoing accommodation or staffing (as discussed below) costs at present. There may be scope for savings over time.

The proposed Functional Structure is illustrated below.



7.2 Staffing

Benchmarking with other jurisdictions suggests that administration costs for Income Support systems are higher than for Social Security Contributory Schemes. In Jersey there are currently around 40 people employed across the Parishes and States Departments, covering roughly 7,500 households and 18,000 individuals. Within this figure, for example, the Housing Committee employs 8 administrative staff to process about 6,000 claims for rent rebate and abatement.

While centralising the system will rationalise the “back office” function, the scheme does require more one-to-one contact, in particular to assess additional components and emergency payments from the Citizen’s Fund. Also, with a change period proposed, the numbers of claimants will not decrease in the first years. Therefore, the Committee estimates that a similar number of staff may be required initially to administer the new system especially if satellite offices are to be maintained. However, by fully integrating systems and functions over time, economies may be identified, in due course.

7.3 Legislation

It is envisaged that the proposed new Income Support system would be based in statute but that primary enabling legislation would be kept to a minimum and supplemented, as necessary, by subordinate legislation. The legislation will be gender neutral and non-discriminatory.

7.4 Appeals

The system has to be compliant with Human Rights Legislation, and therefore a proper system of appeals against decisions and determinations relating to claims and payments must be present as the payment of benefit would be a statutory right.

All existing benefits administered by Employment and Social Security have appeal mechanisms, and the Committee is keen that a similar Tribunal system be established; either specifically or merged as part of an overall Benefit Tribunal system.

8. Measuring success

It is important that the Committee is able to measure the success of the new system in achieving its aim of reducing poverty. It is proposed to use certain standard “poverty” measures to track the success of the system over time, but with a caveat. These are general measures which would allow Jersey to compare to other jurisdictions. However, in a relatively small population results can be affected more easily by extraordinary factors than in a large population.

These measures also take time and significant resources to collect and reflect long-term trends of the system under scrutiny and so would only be done in 5 to 10-year cycles. The proposed measures are –

- 50% of median income (before and after Housing costs) to measure the depth of poverty;
- 60% of median income (before and after Housing costs) to measure the incidence of poverty;
- GINI co-efficient: a widely used indicator of income inequality. It ranges from 0-1 with the lower the number, the smaller the inequality;
- 90/10 percentile: is the ratio of the income of households at the 90th percentile and those at the 10th percentile. The lower the ratio the more the equitable is the income distribution.

Both the Gini co-efficient and the 90/10 percentile measure the gap between the “haves” and the “have-nots” in terms of income.

It will be necessary to devise more measures to ensure immediate feedback, for example –

- administration costs as a percentage of benefit expenditure;
- the percentage of applicants helped into sustained employment;
- the percentage of claimants who leave Income Support;

These will be developed over time.

9. Conclusions

Working towards the eradication of financial and social exclusion in the Island is not something that can be achieved by an Income Support system alone though it plays a very important part. Building caring, contented and safe communities, where no one feels excluded, requires cohesive social and economic policies.

Nevertheless, the proposed Income Support system, difficult as it may be to achieve, presents the opportunity to get the basics right. It will be much fairer than the current system, more transparent and accessible. It presents the opportunity to restructure the delivery of benefits by providing, for the first time, a true one-stop-shop for all financial support.

It will also be a solid foundation for the future on which the Island can build as economic circumstances allow.

ANNEX 1

CURRENT BENEFITS

Benefits to be replaced by Income Support

Benefit	Costs 2004
Housing Abatement	16,244,208.00
Housing Rebate	8,147,052.00
Parish Welfare	3,617,100.00
Non-Native Welfare	3,698,621.00
Attendance Allowance	3,439,852.00
ADA, CDA	974,073.00
Disability Transport Allowance	6,101,498.00
Family Allowance	5,114,873.00
Childcare Allowances	533,720.00
Death Grants	10,212.00
Milk at Reduced Rate	368,111.00
HIE	2,951,309.00
Educational Allowances	136,320.00
Total	51,336,949.00

ANNEX 2

CURRENT BENEFIT RATES

Benefit type	**Benefit Rates 2005**
Housing Fair Rents	£ per week
Bedsitter	98
One-bedroom flat	140
Two-bedroom flat	176
Three-bedroom flat	200
Four-bedroom flat	212
Five-bedroom flat	220
One-bedroom house	159
Two-bedroom house	207
Three-bedroom house	231
Four-bedroom house	250
Five-bedroom house	272
Six-bedroom house	285
Parish Welfare Rates	
Single adult	113.75
Married Couple	188.65
Dependent Relative	93.05
Child 0 – 15	43.65
16 – 17 year old	52.25
18 – 20 year old	66.80
Non-Contributory Benefits	
Attendance Allowance	91.20
Disabled Adult Allowance	74.93
Disabled Child Allowance	49.94
Disability Transport Allowance	38.67
Family Allowance:	
First child	58.77
Second child	50.19
Subsequent children	47.46

ANNEX 3

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296	September	1997	Female pensioner Lone parent Children
359	December	1998	Adults, Children, etc.
359	February	1999	2 Reviews by E&SS
359 Annex	July	2001	Details of budgets for adults and children
431	July	2001	Detail for disabled
433	October	2001	Summary of all budgets
444	November	2001	Summary of all budgets
514	July	2004	Minimum Income System
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[1] *The budget assumes a 3.5% annual increase.*