

STATES OF JERSEY



MEDIUM TERM FINANCIAL PLAN 2016 – 2019 (P.72/2015): EIGHTH AMENDMENT (P.72/2015 Amd.(8)) – COMMENTS

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

STATES GREFFE

COMMENTS

Deputy S.Y. Mézec of St. Helier proposes –

- To increase the total intended amount of States income from 2017 – 2019 by a higher rate of income tax to be introduced in 2016 for individuals whose income is greater than £100,000 per annum, to offset the financial impact of not proceeding with the proposed savings in the Social Security Department, i.e. removing the single-parent component of Income Support.
- To increase the total States' expenditure in 2016 – 2019 by not proceeding with the savings in the Social Security Department for removing the single-parent component of Income Support as proposed in the MTFP for 2016 – 2019.

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

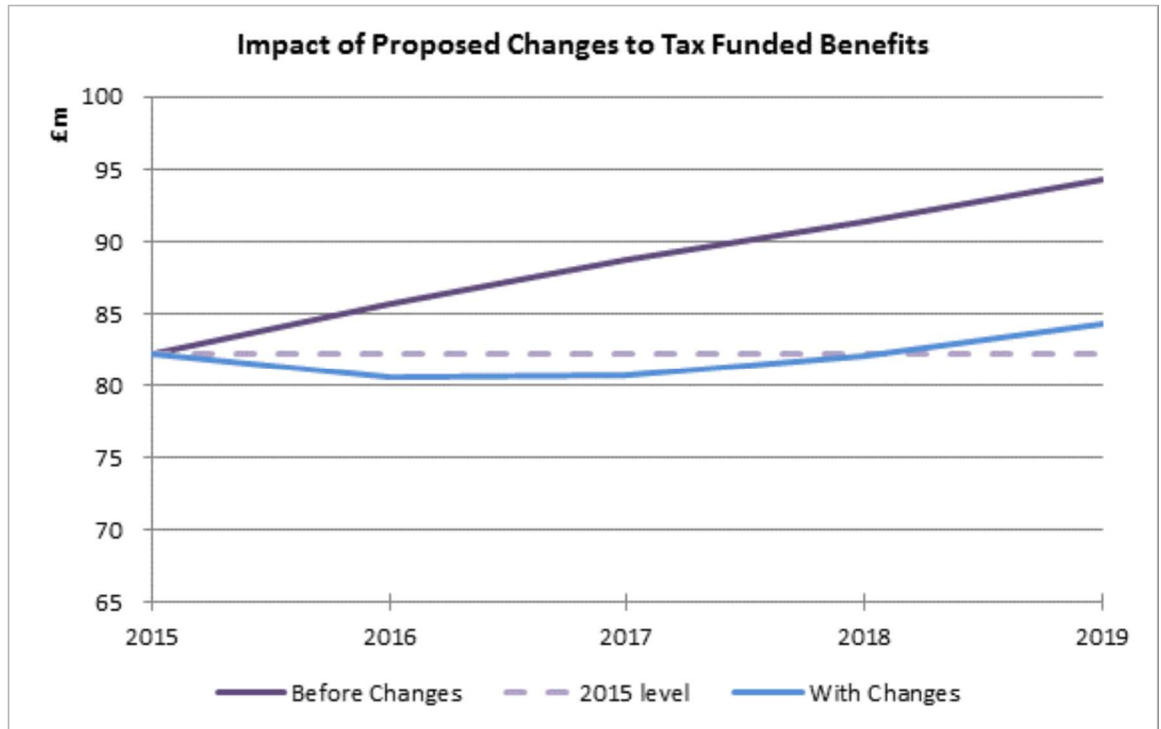
Summary of Council of Ministers' Comments

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

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

Summary of benefit proposals

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



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

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

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

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

Linked amendments

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

Detailed comments

Single-parent households and maintenance income

The Social Security proposal seeks to remove the additional lone parent component from the income support system and to increase the disregard provided in respect of maintenance income from 10% to 23%.

As noted above, the benefit proposals put forward were chosen following a full internal review of all tax-funded benefits. The rationale for removing the lone parent component is straightforward and fits well with the criteria used to consider the various options.

To ensure that the benefit budget is used effectively, funding needs to be well targeted, both in terms of who receives the benefit and in terms of what expense the benefit is designed to cover.

The income support benefit is made up of a number of components to cover a range of basic household needs. Families receive support for their rental costs, their general household costs, their childcare costs and then a living component for each child and each adult in the household. For example, each child is allocated a component of just under £64 per week and each adult £92 per week.

Under the current system, a single parent is also allocated an additional component, worth just over £40 a week, which is not associated with any specific household need. It is proposed to remove this additional component, which is not targeted at any additional expense.

To allow existing families time to adapt to this change, the additional component will be phased out during the MTFP. Subject to the States' approval, a single-parent family claiming income support for the first time will no longer receive this additional component.

The proposed measure will bring the support available to single-parent households in line with the support available to couples with children, improving fairness in the income support system.

The impact of the change will be that the support available to a couple with children, compared to a similar family with only one parent, will include an extra £92 in the base budget, reflecting the larger size of the couple household, which includes 2 adults, rather than just one.

Alongside this change, and to simplify the treatment of income throughout the income support system, it is proposed to allow a 23% disregard against maintenance income compared to the current 10% level.

The report accompanying the amendment suggests that this change will put the claimant in a worse financial position. **This is not correct.**

Currently, about half of single parents claiming income support receive maintenance income. The average amount of maintenance income these single parents receive is about £50 per week. Applying the higher level of disregard to the average maintenance income will provide the parent with an additional household income of £6.50 per week (£11.50 from 23% disregard, up from £5 from 10% disregard).

Parents who require help in pursuing maintenance are able to claim legal aid, and Social Security officers and the Citizen's Advice Bureau will assist with the process.

Sustainable Public Finances and Prioritisation and Re-allocation of Resources

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

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

Financial and manpower implications

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

States Members should consider the proposals as a package, otherwise the implications of this Amendment could be an increase in spending and projected deficit of £2.6 million in 2019 or cumulatively more than £6 million over the course of the MTFP 2016 – 2019.

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

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