STATES OF JERSEY

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

Lodged au Greffe on 29th July 2003
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

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

to agree that until January 2007, or until a comprehensive new low income support scheme is put in place, whichever is the sooner, there shall be no further reduction in –

(a) the current level of payments made to recipients of benefits through the public and private sector housing rental subsidies schemes from the Housing Committee approved by the States on 16th July 2003 and which will come into force on 1st January 2004;

(b) non-contributory benefits from the Employment and Social Security Committee,

through changes –

(i) to the eligibility rules; and/or

(ii) to the annual methods of increase in place as at 22nd July 2003, or other methods of calculation, of the benefits described in paragraph (a) and (b).

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

This proposition is an amended version of P75/2003 which was withdrawn following the States' approval of P.74/2003 from the Housing Committee.

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

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

Impact of user-pays charges

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

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

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

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

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

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Health and Social Services	+3.4
Finance and Economics	+3.1
Education Sport and Culture	+1.1
Employment and Social Security	+0.1
Home Affairs	-0.2
Policy and Resources	-0.2
Economic Development	-0.9

Housing	-1.8
Environment and Public Services	-2.5

These overall figures reveal a variety of approaches to the business of cutting expenditure. The big "loser" in this bidding war was clearly Environment and Public Services Committee with a £2.5 million cut in its budget. This committee has, unsurprisingly, been the leader in proposing user-pays charges, with £2.4 million to be recouped from sewerage charges alone. Further sums are to be raised through increases in a range of planning fees. Other user-pays charges that are under discussion but not yet proposed include the possibility of charges for refuse and roads. The introduction of the sewerage charge has been effectively postponed by the Finance and Economics Committee's requirement that the charged be structured so that the genuinely impoverished should not suffer further hardship from its introduction.

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

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

So far, I have confined this argument to the 2004 FSR, but the presidents and chief officers will soon be embarking on the process for 2005. I remain concerned that despite any improvements that might be made to the FSR process, the end result will once again be measures that will fall hardest upon the poorest in our community.

Benefit Cuts

This brings us to the crux of the argument surrounding the apparent shift that has been brought about by the 2004 Fundamental Spending Review process. In particular, the proposed reductions to benefit and support payments are by definition targeted at the least well off members of the community. The last two of the big spending committees, Employment and Social Security and Housing both fared badly in the 2004 FSR process. The overall figures show that Employment and Social Security have had their funding effectively frozen and the Housing committee ended up with a budget cut of £1.8 million.

Employment and Social Security

As a result of the FSR process, on 13th May this year, the following cuts in expenditure were under consideration:

(a) introduction of an income bar on the Christmas Bonus (saving £300,000);

(b) containment of subsidy rates on the Dental, Optical and Chiropody Scheme for the over 65's (saving £300,000);

(c) exclusion of those in residential homes from the Disabled Transport Allowance (saving £1.4 million);

(d) Freezing non-native welfare and non-contributory benefits at 2003 levels (saving £1 million).

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

It is worth noting here that the removal of inflation growth of non-contributory benefits outlined in (d) would, alone, effectively cut some £1 million from such schemes as Family Allowance, Invalid Care and Childcare Allowances. Without any shadow of doubt, this would have had a severe impact on the poor.

At the end of the day, the Employment and Social Security Committee managed to find the means to adjust their budget so as to avoid putting these measures into operation. We have been assured by the President of the Finance and Economics Committee that the unforeseen bonus in the 2002 budget cannot be relied on in future years, so what will happen in the 2005 FSR process? We can only assume that some or all of these measures will be at the top of the list for consideration.

Housing

Unlike the Employment and Social Security Committee, the Housing Committee successfully brought their mix of cuts and charges to the States in P.74/2003, debated on 15th July. Without wishing to revisit the whole argument, I feel we must briefly examine the sums involved:

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

This is to be phased in over 3 years to affect some 700 families on relatively low incomes where these two benefits make up part or all of that income. By 2006 this will remove some £600,000 from these families. (saving £600,000 per annum by 2006).

Reduction of rent abatement and rebate

This will affect the 85% of States tenants who currently qualify for rent abatement along with a further 1,000 tenants in the private sector on relatively low incomes. It is intended to reduce this benefit by some £730,000 and this will affect around 6,000 tenancies, raising rents on average by around £130 per year or £2.50 per week. This, of course, will come on top of the annual rise due to the cost of living for pensioners. (saving £730,000).

Introduction of asset cap on rebate/abatement at £50,000

Saving £380,000 mainly from those over 60 with savings.

Increase minimum rent payable

Saving £73,000.

Hardship

The total sum either already in place, or proposed for 2005, or possible as a result of the 2005 FSR process amounts to over £7 million. I cannot see how this combination of cuts and charges such as those outlined above can fail to cause some hardship, amongst those dependent on benefits. Certainly, the President of Employment and Social Security Committee in his answer on May 13th agreed, when he said:

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

In his reply of the 13th May, the vice-president of Housing was in denial:

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

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

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

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

The point which needs to be recognised here is that some of these cuts are taking place in the low income support system itself. It is a completely circular and useless argument to suggest that the low-income support system will prevent hardship when parts of the low-income support system are themselves the subject of cuts. As we were told repeatedly in the debate on P.74/2003, there will be no additional funds involved in the proposed restructuring of low income support due to come in by 2006. Even if it is to deliver more effective and efficient support where it is most needed, there will not be any magic pot of money. In the meantime, support for any hardship caused by moves to increased user-pays mechanisms or reduction in services can only possibly come from one or more of three sources.

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

As has been demonstrated above, the benefit system is itself under pressure to make savings, and even if the worst-case scenario outlined above does not come to pass, it is difficult to see how greater funding will be readily made available in the short term. In many, if not the majority of cases where hardship may occur, the tax system is inoperative. The worst cases will be, by definition, well below any threshold for income tax. So that leaves the parish welfare system as the only source of possible relief. The changes being proposed by the FSR process, no matter how attractive they might appear on the balance sheet, will result in increased hardship for many. This in turn will cause increased pressure on a welfare system that is already under strain. Whilst we can anticipate that a restructuring of the balance between the parishes and the executive, operating alongside a low-income support system, may produce more rational and effective answers to the problems of poverty on the island, to proceed with the mixture of cuts and charges demanded by FSR would be a mistake. To blindly pursue the combination of cuts in benefits and increased charges outlined above would constitute an unprecedented attack on the poor. Whilst it can be argued that such actions make economic sense, they make no political sense whatsoever. We must pay attention to the social needs of the island, and that involves proper protection of those who are the least well off. At the time of writing we do not have the results of the income distribution survey, but I believe it will show a marked deterioration in the relative positions of the rich and the poor. In any case, any progress towards the eradication of poverty, which may have been made over the past decade, is put at risk by pursuing the combination of measures resulting from the 2004 FSR process through 2005 and 2006.

In the comments of both the Policy and Resources and Employment and Social Security Committees on my original proposition P.75/2003, much was made of the need for readjustments to benefits which might be required in the interests of fairness and equity in advance of the introduction of the new low-income support system. Having seen what has been done to reduce rental support in P.74/2003 in the name of fairness, I am more than ever convinced that piecemeal adjustments must not be made until the whole package of measures can be viewed in the round. Furthermore, this proposition, like its predecessor, is specifically targeted at reductions, not at changes to benefits. Thus increases in particular benefits, should a pressing need arise, are not ruled out. A benefit deemed “unsustainable” in advance of wholesale reform of low-income support would be ruled out by this proposition. It would be instructive to see what benefit might be deemed so unsustainable as to require immediate reductions before 2006 in advance of a full reform of the system. To call these measures “ad hoc”, when their intention is to prevent ad-hoc action in advance of proper consideration of low-income support, as Policy and Resources do in their comments on P.75/2003, is to badly misrepresent my proposition. To suggest that there might be some adverse impact upon the results of the Steering Group on the Relationship between the Parishes and the States is similarly misplaced. I cannot see how the maintenance of the current levels of support, whilst transfer of one element of the system from the parishes to the States is undertaken, can possible interfere with the transfer. In the light of the comments of the Comité des Connétables to P.75/2003, I have amended the proposition to ensure that it cannot be interpreted to encompass the normal adjustments of benefit according to changes to a recipient’s circumstances.

Financial and Manpower considerations

There are no manpower considerations for this proposition. The proposition places limits on the means by which savings may be made in the FSR process for 2005 and beyond.