STATES OF JERSEY

COLD WEATHER PAYMENTS: AMENDMENT TO INCOME SUPPORT (P.4/2011) – AMENDMENT

Lodged au Greffe on 8th February 2011
by Senator B.E. Shenton

STATES GREFFE

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PAGE 2, PARAGRAPH (b) –

For the words "to be funded by reducing the budget for the Economic Development Department" substitute the words "and to further request the Chief Minister to endeavour to make provision for this funding within the overall 2012 expenditure limit already agreed by the States by reprioritising expenditure proposals in other areas as considered appropriate".

SENATOR B.E. SHENTON

REPORT

In 2006, on 1st June to be precise, I lodged an amendment to the Strategic Plan seeking the introduction of a winter fuel allowance for all pensioners (reproduced as Appendix 1). This aim was adopted by the States.

When the implementation was brought to the States by the Minister for Social Security it was in a means-tested rather than all-encompassing format. I did not challenge this amendment to the original aim at the time as the economy was already showing signs of deterioration and I held a rather negative view of the financial future.

The harsh winter that we have experienced coupled with rising energy prices made me realise that the eligible claimant net for a fuel allowance should be extended and I was delighted to receive Senator Le Gresley's proposition.

Whilst I am cognisant of the fact that spending should not be increased at this time, and that we must keep within budgets, I do not feel that we should look at elements of spending in isolation to determine savings. It would be wrong for the proposition to fail for the wrong reasons, i.e. that Members do not agree with the Economic Development Department cuts as set out.

I have always held the view that the Government has a duty to assist those that deserve help. However, there is a balance between being socially responsible and over-generous. An income support bill approaching £100 milllion would need a 6% GST rate just to cover the amount of benefits paid and this, together with the supplementation bill, is unsustainable over the longer term.

I lodged an amendment to the Business Plan last summer to reduce the pace of increase as I did not feel that we were targeting the right recipients in every case. However, I withdrew it after discussion with the Minister for Social Security on the basis that the level of benefits and the interaction with the tax system could be reviewed – a process that is currently taking place. We currently have a system whereby you can be significantly worse-off working than being on benefits. For example, a single parent with 2 children will pick up £26,000 per year tax-free and, as long as one child is under 5, there is no obligation to find employment.

If she was not on benefits and worked a 30 hour week, she would need to earn an extra £1,500 to cover social security, an extra £2,000 to cover tax, and another £8,000+ to cover childcare. In other words, to be on the same income and working she would need a job paying £37,500 per annum to end up with £26,000 net. Of course, an incentive is required to work so you would probably need to add £6,500 to the salary to make it a realistic level to choose employment over benefits. How many single parents can command £44,000 per annum?

With income support costing £93,000,000 and rising, we seem to have designed a benefits trap.

There are many people who want to work but cannot afford to because after tax, childcare and social security they would be much worse-off.

Is £26,000 per annum the right level of benefit for someone not working? Should there be incentives for maintenance to be claimed? Should benefits be taxed (some recipients receive over £40,000 per annum)? Why should someone on benefits not pay tax whilst someone holding down a job and in the exactly the same circumstances does?

We have a system whereby couples are being encouraged to split up, as a single person can claim higher benefits if the partner's income is excluded, and the incentive to claim maintenance payments is also low. For a minority, unemployment is a lifestyle choice rather than a burden. We should focus on those in genuine need and ensure that we do not continue with the current system which is a benefits trap for those willing to work, to the detriment of both taxpayers and those requiring assistance.

I have therefore adjusted the wording of the proposition to allow the Council of Ministers to take a macro overview of States spending, and I am rather hopeful that this extension of the winter fuel allowance could be financed from within the Department's existing budget – although there is nothing in the exact wording to ensure that this is the case.

The substance of my amendment to the 2011 Business Plan which detailed some of my concerns is attached as Appendix 2.

Financial and manpower implications

There are no manpower implications and, given the fact that the amendment requests that funding is identified in line with 2012 financial limits, no implication of overall States expenditure.

APPENDIX 1

STATES OF JERSEY

STRATEGIC PLAN 2006 TO 2011 (P.40/2006): SIXTH AMENDMENT

Lodged au Greffe on 1st June 2006
by Senator B.E. Shenton

STATES GREFFE

2006 Price code: B P.40 Amd.(6)

After the word "Appendix" *insert the words* –

", except that, in Commitment Two, Outcome 2.2, after Action 2.2.4 insert the following action –

2.2.5 Introduce in early 2007 a winter fuel payment, based on the UK system, for all pensioners resident in Jersey (SOC SEC)."

SENATOR B.E. SHENTON

REPORT

As at the last quarter (March 2006) Jersey had 21,943 Jersey old age pensioners, of which a third live abroad. The last Census (2001) had 14,507 people over working age (men 65 women 60). The census for 2006 was postponed until 2011 by the Council of Ministers and, as a result, we will not have more recent population data to work from later in the year.

The provision of pensions and benefits for the elderly entails a balance being struck between saving for the future and immediate consumption; between compulsion and individual choice; between public and private sectors; and between present and future generations.

How those balances are struck cannot be determined scientifically. It is matter of political judgment. Get it right, and the results may not be evident for decades. Get the balance wrong, and the consequence will be a significant increase in pensioner poverty and social inequality, that may be punished much sooner – at the ballot box.

In the face of this the States have used widespread means-testing to target extra money at those on low incomes. However, means-testing can be ineffective at getting help to those who need it most because of the low take-up level, and demeaning for older people who have to parade their poverty in order to receive a few extra pounds.

Those hardest hit tend to be the over 75s, the vast majority of whom are women who spent years bringing up families, caring or working in badly paid or part-time jobs. These efforts have been historically undervalued and many do not now have an occupational pension or enough contributions to qualify for a full state pension.

A recent study on the effect of electricity and gas price hikes on older people's inflation has shown that it will be at least double that for the average householder. Soaring gas and electricity prices will hit the elderly hardest, a new study by Alliance Trusts has found, potentially intensifying the difference between how inflation affects the elderly and the average householder.
(http://www.alliancetrusts.com/at/pdfs/er_inflation_age.pdf)

The 'Inflation, Age and Domestic Energy' study shows that electricity and gas price rises over this winter will push the overall inflation rate of the elderly up by at least twice the rate that average inflation will rise. The study found that rising domestic energy prices are affecting all households, but the effect for inflation faced by the elderly will be at least double the effect felt by the average householder.

Official U.K figures show that in the year to October the cost of electricity, gas and other fuels jumped 14.2% overall, compared to a year earlier. Inflation for the elderly is already rising faster than the average and this will only intensify that trend. Inflation in over-75s households is presently rising at a rate that is 35% higher than for all households. We have all read about the huge price rise in Jersey electricity costs that are in the pipeline.

The reason why domestic energy price increases will affect the elderly more is that they spend a higher proportion of their income on this than the average householder. The study showed that a 10% rise in gas, electricity and other fuel prices will raise the headline rate of inflation by just under 0.3%, based on the weights given to domestic energy prices by the Consumer Price Index, the official measure of inflation. However, another model suggests the increase in inflation facing a typical household headed by someone aged over 75 would be over 0.6%, more than double the increase in headline inflation.

Alliance Trust's Chief Executive, Alan Harden, said, "Our new study focusing on how rising domestic energy prices hit the elderly harder than others shows that we have to be aware of the different financial pressures that face people in retirement. The effect of inflation should be part of the pensions debate, particularly at a time when the upcoming Turner Report will underline the serious choices facing the country if we are insufficiently prepared for the future."

Alliance Trust's Head of Economics, Shona Dobbie, said, "The real effect of rising energy prices on the elderly are masked by the fact that official inflation figures are an average across the whole population. Older people spend a higher proportion of their income on electricity and gas and this means when these prices go up sharply, as they will over this winter, the elderly are affected more."

The UK government has recognised that fuel costs have a relatively high impact on the elderly and in December 2004 it increased the annual payment made to help the over-60s with winter fuel costs to £200 per household, from £150 previously. This rises to £300 for households with someone aged 80 or more.

The UK Government will again be making Winter Fuel Payments to most people aged 60 or over for winter 2006/07. Jersey is a wealthy Island and needs to distribute its resources better. During my election campaign I highlighted the need for a winter fuel safety net as price rises were inevitable. Whilst the income support system will provide some comfort this safety net will invariably be holed. Why penalize prudent pensioners that have saved? Why penalize someone that has reached maturity with a overriding sense of pride that prevents them from receiving assistance? We must hold on to the qualities that we hold dear – our heritage, our community, our social responsibility, and our competitive advantages. As a Government we are very good at looking after our civil servants – let's start looking after everyone else.

Financial and manpower implications

There are, obviously, financial implications for this amendment. However, the Strategic Plan is a 'vision' document not based on precise accounting. As such, funding can be provided through subtle changes to the business plan, and it is my perception that the black hole will not be as large as suggested. This can be covered in more detail at the appropriate time. There should be no additional manpower implications.

UK Winter Fuel Payment factsheet

If you're aged 60 or over you may get a Winter Fuel Payment to help pay for keeping warm in winter. The tax-free annual benefit is normally paid from November – most payments are made by Christmas.

Who is eligible?

You may get a Winter Fuel Payment (WFP) if the following apply:
you're aged 60 or over during 18 to 24 September 2006
you normally live in the United Kingdom

How much do you get?

This varies according to personal circumstances shown in the table:

Circumstances	Aged 60 to 79 on or before 24 September 2006	Aged 80 or over on or before 24 September 2006
You live alone or are the only person in the household who qualifies	£200	£300
You get Pension Credit or income-based Jobseeker's Allowance	£200	£300
You live with another qualifying individual	£100	£200 if you're the only person in the household who's aged 80 or over £150 if you and at least one other person are aged 80 or over
If your partner or civil partner gets Pension Credit or income-based Jobseeker's Allowance for you both	You don't qualify for Winter Fuel Payment	You don't qualify for Winter Fuel Payment
You live in a care home and don't get Pension Credit or income-based Jobseeker's Allowance	£100	£150

You live in a care home and get Pension credit or income-based Jobseeker's Allowance	**You don't qualify for Winter Fuel Payment**	**You don't qualify for Winter fuel payment**

How it's paid

If you're getting State Pension or another benefit by Direct Payment, Winter Fuel Payment will be made with one of these payments.
If you're not getting a State Pension or another benefit Winter Fuel Payment will be paid into your bank, building society, National Savings or other account that accepts Direct Payment or by cheque to your home address.

Timing of payments

If you claim on or before 22 September 2006 you should get your payment during November or December.
If you apply after this date, you may not get payment until after Christmas.
The Winter Fuel Payment won't affect your other benefits and you won't have to pay Income Tax on it.

How to apply

If you're aged 60 or over by 24 September 2006 and getting a State Pension or other benefit (not including Housing Benefit, Council Tax benefit or Child Benefit) there's no need to apply – Winter Fuel Payment should be paid to you automatically.

APPENDIX 2

The substance of what I lodged in P.99/2010 Amd.(7) is reproduced below –

Amendment 21 (and consequential amendment 45) – Income Support

After the words "withdrawn from the consolidated fund in 2011" insert the words –

> "except that the net revenue expenditure of the Social Security Department shall be decreased by £1,822,000 by reducing the increase in funding for income support".

Reduce Income Support budget by £1,822,000 – to £97,633,700

In the draft Annual Business Plan the estimate cost was £79,334,000 for 2009. The 2011 figure is £99,455,700, an increase of £20,121,700 (+25.36%).

So we should perhaps base the increase on the detail in the Financial Summary on page 84.

The 2010 estimate figure was £93,828,700 – add £3.2 million for benefit uprating, £1.65 million for demographic and cost pressures on residential care, £1.0 million transfer of the Boarding-out Budget from Health and Social Services and £1.0 million allocated to increase Social Inclusion and Reduce Social Deprivation in the Island. This amounts to £100,678,700. Take away the savings as detailed of £3,045,000 and the amount required – per the Financial Summary – is £97,633,700. This is £1,822,000 less than the figure quoted, but still an uplift of 4.05% over 2010.

So where does the money go? This is based on an actual case, albeit names have been changed.

John is a Jersey-born and educated white-collar worker aged 31 and married with 2 young children (wife does not work). He earns £31,640 per annum, rents in the private sector, and pays £1,447.20 in income tax and £1,898.40 in Social Security annually.

His annual income after Tax and Social Security is £28,294.40.

Christian came to the Island 6 years ago. He is also 31, has 2 young children (wife does not work) and works in retailing. He earns £15,000 per annum.

Christian does not pay any Income Tax as his earnings are so low; in fact as he does not earn enough, the taxpayer picks up a supplementation charge of a few thousand pounds to cover his shortfall in Social Security earnings. Christian receives £16,540 in Income Support – putting his gross earnings up to £31,640.00. However, as he does not pay any tax, and much less Social Security, his net income is £30,740.00 – some £2,499.60 per annum higher than John's (8.8%).

In order to incentivise Christian into getting a second job to provide for his family, the Income Support System 'incentivises' him by continuing to pay support well above his current income levels. If he gets a second job paying £16,540, he can claim £3,952 per annum income support – pushing his gross earnings up to £35,592 – albeit he will now be contributing in Income Tax.

With career benefit claimants on the Island, it is time to ask whether those on benefit should have a higher income than those that work.

Going forward by making benefits taxable, if the benefits take income above the tax thresholds, it would at least level the playing field. The Income Support bill has grown by 25% in the past 2 years – if we don’t get it right soon it could destroy our Island, and the biggest losers will be those that see their benefits slashed because the pot has been poorly targeted and recession means that it has to be drastically reduced.

Public Comments

A

“Having paid self-employed social security contributions for many years, I have grown to view social security liability as just another kind of tax anyway.

Last week I obtained an estimate from the Tax Office for my ITIS liability for 2011. It will be 6% with child allowance. 13% without.

A friend (aged 25) who has no children, has worked since the age of 16, never claimed benefits, and earns less than £19k gross p.a., has an ITIS liability of 17%. It will never be viable for her ever to buy her own home in Jersey as she has no family to help her and no margin to save anything. She is fully aware that financially her life would be easier if she had some kids (Income Support payments, rent paid plus no tax to pay), but she chooses not to. But a lot of people make a different choice and it’s easy to see why.

Another friend (aged 40) worked full-time from age 16 until having a baby 2 years ago. She’s on Income Support now. She doesn’t want to be, but says she has no choice. She’d have to pay tax and where would she find the money for rent and bills and childcare on a low wage (she was a carer) when she has no partner or family help? She feels trapped. Her best option financially would be to have another baby ...on Income Support.”

B

“I have found out that my friend’s son who is Jersey-born, has been away from Jersey for quite a few years can claim a lot of money from the States in the form of unemployment benefit and a percentage of his rent for his accommodation. His parents are pushing him to get a job but he now says he is better of not working and all his friends are doing this as well.

As the States are cost-cutting this does not seem right and as a taxpayer I would prefer the funds to go where they are needed.

Has this amount of benefit increased over the years as I remember when you had to work or go to the Parish Hall and plead your case.”

C

“I have 3 jobs and pay 10% tax. The couple across the road, both on benefits are going to Amsterdam at the weekend – this is their third holiday this year – it cannot be right.”

D

“I was told by Social that if I only spend three nights at my girlfriend’s house, with our baby, she can get higher benefits. I’m doing this but feel it’s wrong – why are you advising me to spend time away from my family? We need the money and Social say it’s OK but I miss them. I cannot afford to move in full-time cause the benefits are too good.”