

# **STATES OF JERSEY**



## **INCOME SUPPORT SYSTEM**

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**Presented to the States on 2nd November 2004  
by the Employment and Social Security Committee**

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**STATES GREFFE**

## **REPORT**

### **1. Introduction**

The States agreed in P.44/2000 to charge the Employment and Social Security Committee –

- (i) to identify the likely effects of the new income support system; and
- (ii) to report to the States on the resource and administrative consequences.

The proposition sought to combine means-tested benefits such as Parish Welfare, Rent Abatement/ Rebate, Family Allowance and income barred Disability Benefits (not Student Grants paid by the Education Sport and Culture Committee) into one integrated benefit.

This report outlines progress made and thinking to date so that States Members and the public generally, can comment before the final proposals are put to the States in February 2005.

### **2. Background**

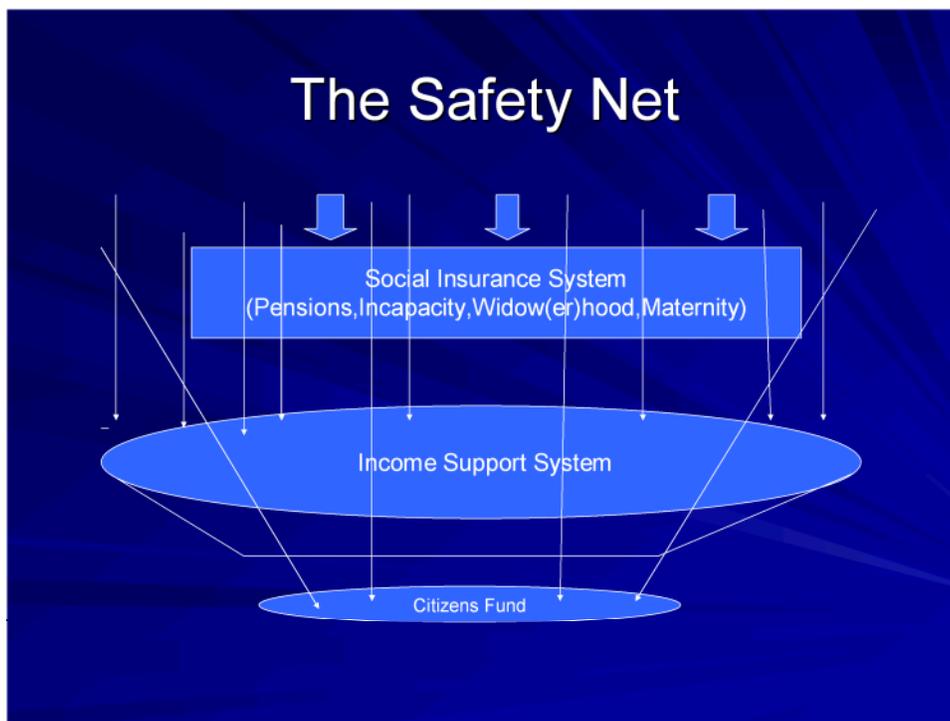
The original proposals put to the States were based on a concept of a single system with one current means test related to a series of components within one benefit. In essence the driving forces were simplification, incentives and fairness. The States also agreed in P.178/2003 that one of the components would be a disability component.

In order to identify effects and costs of the new system, a considerable amount of research has been carried out (and continues now). Basically, it was important to find out what income people needed to live on and how many had incomes below this level. A Household Budgetary survey was undertaken by the Centre for Research into Social Policy (CRSP), Loughborough University, which has formed the basis of a “modest but adequate” budget standard for different household types. An Income Distribution Survey was commissioned by Policy and Resources in 2002 and reported in late 2003 following Business Development Research Consultants (BDRC) survey in 2002. The Budget standards were re-priced in 2002 to dovetail directly with the Income Distribution Survey Data which was collected in 2002.

Further work is being completed on an Income Distribution Model (as part of the Income Distribution Survey) and by Nottingham University, who are comparing social assistance systems and benefit measures throughout Europe in order to gauge Jersey’s relative position now and identify performance measures for the future. CRSP has also been helping by providing reports to identify relevant issues and trends for the development of policies appropriate for Jersey.

At this stage, it was recognised that an income support system would become a financial “safety net” for people in Jersey and so could not be considered on its own, without taking into account the whole Social Security system. As a result, a review of policy governing the Social Security and Health Insurance systems was carried out. The

findings are published in R.C.49/2004.



## Purpose

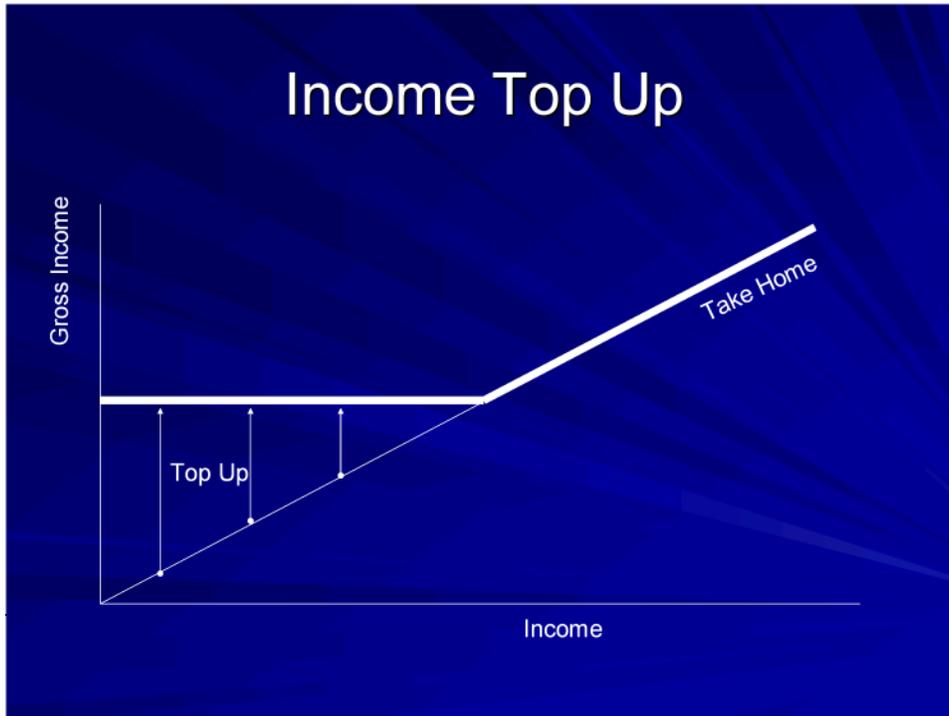
One of the key questions to be posed and answered is what is the purpose of the income support benefit? In 2000 it may have been about simplification due to the disparate, uncoordinated means tests in Jersey but in 2004 with the advent of tax changes, the policy intent may be around the level of income necessary for a modest but adequate standard of living. This level is by no means luxury but is not subsistence.

The purpose of the benefit is to provide households on low income with financial assistance to help meet a modest but adequate budget. However as part of this basic policy, which for the first time looks at expenditure as well as income, the new system will be –

- simpler to understand and administer,
- fairer to the beneficiary and tax-payer,
- more customer-focused and friendly,
- more consistent; and
- more immediate, being based on current means.

The proposed benefit would be structured so that financial components build to a tailored level of income suitable for a particular household's needs. This structure lends itself to a "minimum income guarantee". One of the difficulties identified with the existing system is the question of disincentives through disregards and allowances

and the mechanism of regression in the respective benefit systems. The different disregards and allowances in the different benefit systems interact so that it is not worthwhile to seek extra income as it is effectively lost through compensatory losses in benefits. The proposed income support system is an “income top-up” rather than a minimum income guarantee scheme where the States will supplement a household’s income up to a “statutory” level; no more and no less.



There are two further issues to fall out of this policy. Firstly income top-ups do not offer incentives. If the States wish to maintain incentives to work, or care for example, additional components will have to be built into the system. There may be additional costs associated with these activities (6% contribution to Social Security for workers for example) but others may not be so apparent. Secondly the level of income has no regard to “user charges” which may not be contained in the budget standards. For example, in the current system despite any rent subsidy, a household may have to pay a minimum rent which effectively would take it below the designated income.

The proposed income support system has been described as the vehicle that will temper the effects of any General Sales Tax that might be introduced in Jersey. Any proposed GST which may increase prices will be measured within the household budgets which, in turn, will be used to set the level of support. This protection would apply to those on income support but it is worth noting that all Social Security benefits, which will include income support, are increased, annually, to maintain their value.

#### **4. Means Test**

The current system of disparate means tests will be replaced by one consistent evaluation of income that will be applied to all eligible households claiming support. This means test will be based on current income which will be reviewed periodically according to household circumstances. Households with more stable and consistent circumstances (including income) will not be reviewed as often as others with more fluctuating incomes and structures.

To avoid the possibility of poverty traps and disincentives which have been unintentionally included in the existing system, all income (other benefits as well) will be assessed in the means test and the regression will be pound for pound. This is a fundamental change in policy and philosophy. The States are effectively identifying levels of income that it believes are adequate for families to live on and will assist only up to that level. Compared to the mechanism of income bars in disability benefits this is a very strict application of a means test. The high income bar in place at present effectively makes disability benefits “universal” as only those on high incomes are excluded regardless of both means and the cost of the disability.

As far as testing for assets is concerned, the general view is that realisable assets (but not the principle home) should be valued and an income derived from this valuation would be used in the means test.

#### **5. Components**

The level and range of components identified within the CRSP surveys remain the basis for the components. However CRSP has been asked to look at some of the rates relating to children and single parents. CRSP has also been requested to look at any additional cost of being a carer and asked to explain how its methodology differentiated between disabilities into moderate, severe and very severe categories.

In essence there are 3 types of component –

- (i) basic living
- (ii) dependant living
- (iii) extra such as
  - disability
  - health
  - residential care
  - rent subsidy
  - childcare
  - carers

Within this structure a level of benefit could be tailored to fit almost any household. The rates themselves should keep up with inflation on an annual basis by increases in line with the cost of living (RPI) but periodically the

elements of the budget should be re-valued and the budgets reassessed. In between, additional costs can be included within the budget, for example, to reflect new government policies such as the introduction of any new user charge.

One example of a basic budget based on 2002 prices, is given in the following tables with the additional costs of differing degrees of disability.

**Minimum essential weekly standard budgets for an adult and additional cost for different degrees of disability**

	Basic adult budget	Additional cost of disability		
		Moderate	Severe	Hearing
Weekly Budgets in £'s				
<b>Food</b>	29.44			
<b>Clothes</b>	11.75	1.04	2.56	
<b>Toiletries</b>	6.18			
<b>Activities</b>	35.00		15.00	
<b>Holidays</b>	5.76		4.81	
<b>Christmas</b>	2.16			
<b>Healthcare</b>	3.24	4.51	7.46	1.29
<b>Other</b>	34.50	51.00	88.29	7.30
<b>Total</b>	<b>128.03</b>	<b>56.55</b>	<b>118.12</b>	<b>8.59</b>

Any of these items could be paid as a cash weekly amount in full. Alternatively, some aspects, such as Christmas expenditure could be paid by way of a yearly bonus as happens now with the Christmas Bonus.

This system reflects normal everyday household budgets and does not take into consideration exceptional costs that might be covered in the U.K. by the “Social Fund”, Guernsey by the “Medical Emergencies Fund” or in Jersey through a “one-off” grant under the welfare system. A “Citizens Fund” for one-off major expenses would be an integral part of the overall system.

## **6. Health**

For the purpose of this income support system, pending any proposals on meeting the costs of primary medical, pharmaceutical, dental, optical and chiropody services, which may arise from the Integrated Health Review, it is assumed that the status quo of co-payments and private general practitioner care remains for the present. CRSP’s Household Budgets contain expenses for medical care which in the majority of cases are met adequately from the family budget. The exceptions to this are low income families and families with high medical costs (some of these

have been identified in the disability budgets). There is also the question of covering existing HIE patients who receive free treatment.

The idea of using income support as a passport to free primary health care met with a mixed response. Although simple it did not remove existing difficulties that are experienced with the HIE system. It was felt that requiring a co-payment, however little, was a prudent thing to do. Recognising that the Health Insurance Fund still pays approximately 60% of the cost, any exceptional additional cost could be found from the income support system for families on low income. The problem was one of delivery. Beneficiaries could be paid up front in their weekly benefit but over time this component may simply be absorbed into the general household expenditure and some beneficiaries would still struggle to meet the cost of visiting the doctor. Alternatively that portion of the benefit relating to health costs could be paid directly to general practitioners and deducted from the weekly amount paid to the beneficiary. Currently, the States also subsidise premium payments for certain groups of residents to supplementary health schemes namely the 65+ Health Plan and the Jersey Dental Scheme. These premiums could be built into the weekly budgets or paid directly to the insurers. This could be particularly relevant if these schemes were to grow in popularity or scope in the future.

## **7. Residential care**

As part of the overall review process, the funding of residential care is being considered not least from the point of view of existing, and increasing, welfare costs. One of the alternatives for funding is an insurance system. If insurance is simply a method of raising revenue to fund residential care through contributions levied on income or earnings, separate components may not be necessary as the service would be “free at the point of delivery”. However if insurance means true insurance where individual payments are linked to the benefit, some individuals will fall through the system for various reasons and the income support system will have to help. Income support would have to help those without assets or means that genuinely need residential care even if there were no new funding mechanism.

The level of the component would be dependent on the cost of residential care. In the existing support system this is set at a level by the Health and Social Services Committee. Homes can and do charge more than this. The maximum value of the component would be the difference between this agreed level and the combination of components (basic living + dependent living + extra) relevant to the circumstances of the person going into care. The actual benefit paid would be dependant on the means test calculated in the normal way.

## **8. Housing**

As has been found in every other country that has been examined, the integration of housing costs in Jersey’s proposed reform of social assistance is the most difficult. In fact, in Jersey it is perhaps more difficult given the housing market and the use of housing policy as a system of immigration control. Clearly the income support system should not drive housing policy, as it should not drive health policy, but it should reflect that policy.

Nevertheless rent abatement and rebate is the largest revenue funded benefit in Jersey. Annually more than £20 million is paid to 6,000 households which is nearly one-fifth of all households in Jersey. Such a large element of income support cannot be ignored. The transition from existing rental subsidies to the new income support system may need a period of transition to give households adequate time to adjust.

Access to rental subsidies currently exists for people resident in Jersey for 15 years but this may reduce to 10 years. The newly proposed policy on monitoring and regulating migration also alludes to eligibility remaining as a 10-year rule and not attaching subsidies to a “licensed person” who may have less than 10 years’ residence. However, people with less than 15 years’ residence can get help with housing costs now if in receipt of welfare grants or tax relief on mortgage interest. This would suggest 2 “housing” components; one relating to the rental subsidy and the other a general contribution to rental costs, at least until the residence criteria for income support and rental subsidies are brought into line if at all possible.

These 2 existing routes to help with rental costs are based on different policies so that in practical terms the overall policy effect is not clear. Some households receive 100% rental subsidy whilst other families struggle as the rent they actually pay may eat into their modest budget. Setting a basic policy intent of covering, say, a maximum of 80% of the fair rent through a housing component would not necessarily solve this problem, although it would be easy to understand. The income support system would still have to be based on fair rents and on properties appropriate to family circumstances to ensure equity amongst beneficiaries. Perhaps the policy intent behind the housing component should be more flexible offering to cover an overall average of the level of fair rent recognising that some will receive 100% and others much less. The current rent abatement system is worth £16.3 million in a calculated rental take off £31 million.

It should also be recognised that in some circumstances people paying mortgages may also have problems making ends meet. Generally mortgage lenders can accommodate changes in circumstances but there may have to be short-term provisions to help pay mortgage interest for those that meet the eligibility criteria.

## **9. Childcare**

Financial assistance with childcare is currently available through 3 different systems. Those who pay tax at the marginal tax rate can gain tax relief on their childcare payments that is worth approximately £34 a week. People who are beneath the tax threshold can claim either a childcare allowance for children in registered childcare who are under the age of 5 or can claim through the discount scheme administered through the Jersey Child Care Trust for children aged between 5 and 12. The current systems are based on the requirement that childcare is necessary to allow parents to find or maintain employment and therefore to remove the disincentive to work that childcare costs sometimes produce. There is a different point of view that suggests that childcare is beneficial to the child, and as such the requirement for parental work should be dropped.

The question of the individual responsibility to work in order to care for him/herself and his/her dependents is touched upon later in this report and is a key feature of the income support benefit. However, the requirement to work may be too rigid for an income support system which should reflect the difficulty that beneficiaries might experience in maintaining a childcare place after genuinely losing a job or during a bout of genuine long-term sickness. There is also the possibility that a childcare place may be necessary during periods of training or re-training geared to finding or maintaining employment. Such exceptional circumstances should be covered by an income support system.

As with rental subsidies, the cost of childcare does vary and therefore the level of assistance would have to meet an agreed level of a fair value of childcare costs.

The Education, Sport and Culture Committee are developing a Strategy for Early Years Education and Care. This will, of course, influence the future provision and may have cost implications for parents.

## **10. Carers**

In a similar fashion to childcare, assistance given to carers of people with disabilities can be a compensation for loss of earnings because a person has given up or cannot work because they need to care for a disabled relative, or it is an acknowledgement of the general social good. By maintaining a disabled person in the community and not using residential care facilities, which may, overall, be more expensive to the community, there may also be a financial benefit to the Island. Currently the policy intent of Invalid Care Allowance (paid to a person who cares for a very severely disabled person) is a compensation for loss of earnings rather than recognition of the benefit of community care and is paid to people under pensionable age. However care does not necessarily stop when a person reaches the age of 65 and there is merit in considering a carer's component which would continue to be paid for people beyond pensionable age who care for another.

The Social Security system provides benefits to compensate for loss of earnings and a carer's benefit could be paid, much like sickness benefit, for those who cannot work because they are caring for a disabled person. The Committee is considering this option which could provide another stream of financial assistance. If implemented, this contributory benefit could be included in the means test, as a pension would be included for a carer over pension age. There has been some discussion on whether there should be an incentive for carers. The Committee recognises that carers do not care for financial gain but the Committee believe that they should be afforded some extra assistance. This could be accomplished by treating the carer as an individual within the household and not as a dependant resulting in 2 individual components being included in the assessment rather than that of a couple.

Eligibility criteria for a carer's component would be very similar to those which exist for Invalid Care Allowance. There would be a clear link to the disability components (probably the most severe) and the carer would need to provide care for a certain period of time in order that the disabled person can remain in the community and not be cared for in a home or institution.

## **11. Eligibility**

As with welfare and other benefits a 5-year “ordinarily” residence would be the basic criterion for a person to be eligible to claim other than the simple fact of being below the requisite income level and being present in Jersey. Such a residence condition is fairly standard worldwide. Presently with welfare there is an age condition, but with any system there has to be an ability to cater for exceptional family circumstances. These provisions would be necessary to cover the cases where young people under the qualifying age for welfare can no longer live with their family and have to set up households for themselves. The basic age condition would be 21 but the provisions would need to cover young people between the ages of 16 and 20.

As well as these lay criteria, the system should not encourage a benefit culture and so it has been agreed that in general this is a scheme that covers people both in and out of work but which requires individuals to be responsible for themselves and therefore work. This does not preclude payments to people genuinely seeking work or in appropriate training schemes but it is not to be a route to make inactivity pay. Certain responsibilities will therefore fall on claimants and household members to make reasonable efforts to find employment, not divest themselves of assets, to co-operate with Departmental medical examinations and to provide full and relevant information about all household members and their incomes.

The existing benefit systems also have different attitudes and policies to work which need to be brought into line. Within the new income support system it will be a requirement that, wherever possible, an individual will be required to work, seek work or train for work unless there are medical or social reasons why this is not possible. This requirement will be seen as reasonable by some but harsh by others. For example, within a family where one parent has remained at home whilst the children are young, at what point would it be desirable for that parent to return to work? Would it be when the children are aged 5, 11 or 18? If the parent takes the decision to remain at home should income support be reduced by removing any components related to couples?

Having established a basic criterion of residence which attaches to a person, it will be necessary to attach different criteria for different components. This has to be the case for the housing components which have to differentiate between the 15-year housing rental subsidy that currently exists and the 5-year ordinarily residence rule. These special eligibility rules may also extend to the child component and disability component where reciprocal agreements with the U.K. exist that allow residence in the U.K. to count towards residence in Jersey. This does not mean that the benefit can be exported to the U.K. as it is fundamental that the family members must be present in Jersey unless “temporarily absent”.

## **12. Administration**

Until the system has been further defined, and costs produced, detailed administrative arrangements cannot be made. However some work has been done on the likely effect. The first principle to be adopted is the common

means test which must be done consistently and in one database. Whilst such a database will have to be held centrally the point of contact for the customers concerned could be at the Parishes or a States' Department whatever is best for the customer. Practically the database will have to be built on the existing Employment and Social Security system forging direct links to existing benefits and earnings details so that monitoring can take place seamlessly. Payments would be made electronically, where possible, at the same time as any other pension or benefit. The comparative costs of alternative ways of delivering the benefit have yet to be estimated.

The question of periodic reviews has been considered. Annual income assessments may be appropriate for pensioners where incomes do not vary greatly but might be too long for some intermittent workers for example. Any system needs to be flexible but with quarterly returns of contributions from employers could be automatically arranged every 3 months for those in work, and perhaps more frequently for the more volatile cases sometimes seen by the Parishes. One Parish Constable has commented that the volume of new claimants and reviews would be an important consideration in deciding whether the Parishes have adequate resources to cope.

The Parish Authorities provide an immediate welfare service that is not provided by other benefit systems. The welfare authorities, for example, provide emergency cash payments (rather than cheques) quite often (the banks may be closed), or act as agents for beneficiaries who cannot manage their own financial affairs. These valuable services cannot be lost and this local knowledge could be built on through a type of "Citizens Fund" (mentioned previously) which could be delivered through the Parish Halls.

Experience at Employment and Social Security suggests that benefit administration, and particularly, computerisation will need planning and time. Work on developing the computer system and its infrastructure, mapping the business processes and providing the necessary resources needs to be undertaken as soon as practicable if October 2006 is to be achieved.

### **13. Developing and costing the System**

Work on the income support system regarding the nature, policy and structure of the benefit is nearing completion and modelling has begun which is highlighting areas for more analysis and political steering. Several examples are given here.

#### Measures

There is a need to set out some indicators by which the success or failure of the new system may be measured. This brings us back to the purpose of the benefit. As an income top up does the benefit affect the inequality or equality of incomes in Jersey? Does it lessen poverty? Nottingham University are currently undertaking a study across Europe, including Jersey, analysing social protection programmes and potential comparators.

#### Level of household budgets

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Loughborough University continue to develop the Household Budget figures to identify different costs, some of which have been mentioned above. In particular, disability, carers and the costs of the aged are being considered. Not only will these refine the budgets but the research may add to the number of components either by introducing new ones or extending the range of others (disability).

#### Impact on existing beneficiaries

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The change in policy will target more support to the very low end of the income spectrum. The benefits that are likely to be redirected are the rent subsidy and the disability benefits with the relatively high income bar (and relatively high rate for some disabilities). DTA is a prime example but is not alone in this area. It can be seen from the budget standards that some types of disability have no additional transport costs. It is for this reason that recent discussions in the Department have highlighted the need for a clear transition strategy.

The Social Security Advisory Council is also meeting with representatives of organisations representing people with disabilities on the issues relating to disability benefits and components.

#### Cost estimates

OXERA has begun to model the overall cost of the scheme based on early assumptions. These assumptions will be refined and iterations of the model developed to give a realistic estimate of costs, impact and inter-action with the fiscal strategy currently being developed.

## **14. Conclusion**

This paper outlines the fundamental principles behind the proposed income support system which the Employment and Social Security Committee will be bringing to the States in January/February 2005 for implementation in October 2006. The Committee is happy to receive any feedback on these principles and key issues which might help it refine the proposals.

*The Employment and Social Security Committee would welcome suggestions on the proposed Income Support system and are asked to forward their views, in writing, to the President, Senator Paul Routier.*