

STATES OF JERSEY



WINTER FUEL PAYMENT SCHEME FOR PENSIONERS

**Presented to the States on 29th January 2007
by the Council of Ministers**

STATES GREFFE

REPORT

The States, in agreeing the Strategic Plan 2006-2011, agreed, after an amendment to –

“Introduce in early 2007 a winter fuel payment scheme, based on the U.K. system, for all pensioners resident in Jersey”.

That objective was subsequently amended in the Annual Business Plan 2007 with the commitment for an –

- Agreement reached by the Council of Ministers on an appropriate reallocation of expenditure within existing States expenditure limits by February 2007 to fund a new Winter Fuel Payment for pensioners, with the scheme introduced by November 2007.

The Social Security Department has presented a report to the Council of Ministers, setting out options and that document is attached to this report.

The options covered range from an income-barred scheme for the over 75s, based upon a payment of £200 per household at an estimated cost of £900,000 p.a. to a scheme based upon the U.K. scheme of £200 per household with a member over 60 years old and a further £100 per household with a member over 80 years old, at a cost of £2.49 million p.a.

The payment level of £200 per household has been shown as this is the payment made in the UK. If Jersey is to introduce a scheme, a different payment could be paid, as suggested by Senator Shenton in bringing his amendment. At a level of £100 per household the estimated annual cost range would be £450,000 to £1.25 million.

Having considered the Department's report, the Council of Ministers regards the funding of Winter Fuel Payments at the level awarded in the United Kingdom for all pensioners, regardless of their income, as ill-targeted, wasteful and unaffordable given that to fund such a scheme will require cuts to essential services in order to remain within spending limits agreed by the States.

The Council of Ministers strongly believes that scarce resources should be targeted where needs are greatest and accordingly has asked the Social Security Department to develop a scheme for Winter Fuel Payment for pensioners on low incomes.

The Department will bring that proposal back to the Council of Ministers by early February and, in turn, the Council of Ministers will propose a scheme to the States in February 2007 for introduction in November 2007 in accordance with the objective set in the Business Plan.

In bringing its proposal to the Assembly the Council will make the States aware of equivalent cuts to services which will have to be made in order that the scheme is funded within spending limits as agreed by the States, so that States Members, in agreeing to a scheme are fully aware of the consequences arising from their decision.

The Council of Ministers remains committed to the Strategic and Annual Business Plan and the objectives therein, but believes that those commitments should be delivered within a sustainable, affordable and responsible financial framework.

The Council of Ministers remains committed to delivering the objective set in the Annual Business Plan of introducing a Winter Fuel Payment by November 2007.

25th January 2007

Winter Fuel Payment

1. Introduction

- 1.1. Further to an initial amendment by Senator Ben Shenton the States approved in both the States Strategic Plan and the Annual Business Plan 2007 the introduction of a Winter Fuel Payment *for pensioners* by November 2007 –

The States Strategic Plan 2006 – 2011 includes the objective to:

“Introduce in early 2007 a winter fuel payment, based on the U.K. system, for all pensioners resident in Jersey”.

In the Annual Business Plan 2007 the Council of Ministers committed to present to the States proposals for a winter fuel payment scheme in November 2006 together with equivalent funding options.

Process

This report is the first of a two-stage process to develop the necessary Report and Proposition to the States and requires the Council to consider, from the options presented, its preferred option for a Winter Fuel Payment (WFP) scheme.

In the meantime work is underway in departments to identify a range of service reductions from which the Council can identify a source of funding for the preferred option. It is proposed that a second report setting out these funding options will be presented to the Council on 30th November, together with a draft Report and Proposition.

- 1.2. The original States debate ebbed and flowed around the “aspirational” desire for the principle of a WFP for all pensioners against the detailed difficulties of a scheme based on the U.K. system operating in Jersey. It was agreed that a paper outlining several options for a WFP be prepared. Whilst drawing up these options 2 issues always surface; the universal eligibility of all pensioners covered in Senator Shenton’s proposition against the targeted mechanism possible within Income Support which will not cover all pensioners but will extend to all groups in greatest need. This paper describes the U.K. system briefly and then offers four alternatives and discusses their merits against a set of criteria.

2. The U.K. System

- 2.1. A WFP in the U.K. is an annual tax-free payment made to eligible people aged 60 or over to help towards their winter heating costs. People aged 80 or over are paid an extra amount. It is a lump sum and in most cases is paid automatically, but some people will need to claim. It is a regulated payment and not subject to a budget.
- 2.2. A person could qualify if he or she is aged 60 or over during the qualifying week which begins with the third Monday in September each year (18th to 24th September 2006). A WFP is not normally paid if during the qualifying week a person –
- Does not normally live in Great Britain (exceptions include EU and EEA countries)
 - Lives in a care home and gets income based Job Seekers Allowance or Pension Credit
 - Has been in hospital for more than 52 weeks
 - Is in custody after sentencing
 - Is subject to immigration control and does not get help from DWP
 - Lives with a partner who already gets a payment of income based Jobseekers Allowance or Pension Credit for the person.
- 2.3. In practical terms there are 4 levels of WFP in the U.K. which vary according to personal circumstances.

£100

- if you are between 60-79 and live with another qualifying individual; or
- if you live in a care home and do not get Pension Credit or income based Job Seeker's Allowance;

£150

- if you are over 80 and live with another qualifying person who is also over 80; or
- if you are over 80 and live in a care home but do not qualify for Pension Credit or income based Job Seeker's Allowance;

£200

- if you are aged between 60-79 and live alone or are the only person in the household who qualifies; or
- if you are between 60-79 and get Pension Credit or income based Job Seeker's Allowance; or
- if you live with another qualifying individual and are the only person in the household who is over 80;

£300

- if you are over 80 and live alone or are the only person in the household who qualifies; or
- if you are over 80 and get Pension Credit or income based Job Seeker's Allowance.

2.4. The complexity of this system is due to the reliance on the existing U.K. benefits system to act as passports to the WFP and to govern the level of payment depending on individual circumstances. One of the features of the system is the effort to avoid duplicate payments, particularly with those benefits which contain disability premium payments which already have an element in respect of increased fuel costs. People with disabilities or with young children are not included in this scheme as additional payments are made through other parts of the tax credit/benefit system. Complexity is also compounded by the qualifying age of 60 (which introduces the use of Job Seeker's Allowance as an administrative tool) which it is suggested has been used to avoid the problems of different pension ages between men and women, and the administrative and political effort to deal with this issue. There is indeed little hard evidence that a 60 year old female pensioner has greater need for a WFP than a 65 year old male pensioner; but that logic could be applied across all age bands.

2.5. It is clearly evident that the U.K. system for WFP cannot be superimposed on Jersey. The different benefit structure and administration does not allow it to be delivered through the same "passport" benefits. The U.K. State Pension, the Pension Credit system and Job Seekers Allowance are used to identify the majority of individuals that may qualify, but others (those over 60 in the U.K. with no U.K. State pension and income over Pension Credit or Job Seekers Allowance limits) would have to apply. **Whatever the complexities of the U.K. system of identification and delivery, the basic principle can be summed up as a payment of £200 for each household containing a person aged over 60 (on a certain date) with an additional £100 for each household containing a person aged over 80 (on that date).**

If the administration and IT systems were devised to deliver the U.K.-style and rate of benefit in Jersey, the estimated cost would be £2.49 million p.a. excluding setup costs for a scheme based on ages 60 and 80 in private households or £1.97 million p.a. for a scheme based on ages 65 and 80 in private households. If a flat rate of £200 were awarded to each household containing at least one person over the age of 65 the cost would be an estimated £1.73 million p.a.

3. Context and Options

3.1. There is no legislation in place for a WFP and no existing administration that could be used to deliver a U.K.-style benefit. Whilst States' Acts, or triennial regulations may be used to place any scheme on a "legal footing" by November 2007, perhaps the key barrier is the development of the administration and the design of any IT system. Adding a new benefit module to the Social Security computer system, may ultimately be the best way forward, but it will take time and resource and if it is to be bespoke would be

disproportionately expensive for an annual benefit spend of about £2 million. The difficulty is that the existing system is based on individual records and moving to “households” is quite a change to the existing database “tables”. Even identifying those at different ages to pay variable rates is not an easy matter, so the different rate at age 80 has been dropped from the options.

3.2. Current effort is focused on the Income Support system and there is no possibility to develop a fully integrated system for a new benefit until Income Support is firmly bedded in. This means a sub-optimal and, in some ways, duplicate system will have to be developed. If a system based on the new Income Support scheme being developed were chosen then it may be possible to use the module being developed for that purpose.

3.3. A new system based on the U.K. scheme is impossible within the timescale, but alternative “passport” Jersey benefits may provide routes for delivery of WFP to different cohorts of the population. To avoid the variable rate difficulties, estimated costs are based on £100 per person for individual based options and £200 per household for those based on households. There are other options but the following four have been selected as potential delivery mechanisms using –

- the proposed Income Support Scheme
- the Christmas Bonus Scheme
- Jersey Pension payments
- the TV Licence Scheme.

3.4. **Income Support Scheme**

The proposed new Income Support system will identify **households** which may be suffering social or material deprivation due to relatively low income combined with their particular circumstances. Different benefit components relating to household circumstances will be paid under the new system which will help these potentially vulnerable households. The components represent household and living allowances which contain elements reflecting the cost of heating. Payments are made regularly (mainly weekly) so the appropriate component could be increased and the additional amount paid throughout the year rather than in a lump sum.

3.5. Alternatively a lump sum could be paid to all households in receipt of Income Support (at a given time) through the special payments system in the Income Support Scheme. The legislation will be in place for this when the Income Support system goes live, and the only change necessary in the IT system would be if a simultaneous lump sum payment were to be made to all recipients.

3.6. It is worthy of note that currently, through Parish Welfare, assistance is given to households receiving Welfare for Cold Weather Payments (CWPs) during the winter months. These households, by definition, will be most in need and not solely pensioners and obviously not all pensioners. The payments are in addition to those within standard Welfare payments to contribute towards normal energy costs. The CWPs are calculated and paid on a monthly basis in arrears by reference to fuel costs and the temperatures and wind-chill factors of the previous month. Last winter the full amount paid to those on Welfare amounted to £197 to each welfare recipient and a very rough estimate of £200,000 in total.

3.7. These resources will be subsumed into Income Support which will include, within the Living Component, provision for energy costs of the household. Whilst plans are not finalised, it may make sense that fuel costs, rather than being spread evenly across the year, could be seasonally adjusted to reflect the greater needs in winter in the form of lump sum payments. Of course Income Support will reach many more households than Parish Welfare alone and the same lump sums could not be afforded from existing resources for all Income Support households.

3.8. It should be noted that CWPs are made in the U.K. in addition to WFPs and to overlapping but different cohorts, but their nature is different to those in Jersey, CWPs being made when temperatures fall below 0° C. in the U.K. for 7 consecutive days but below an average of 12.5°C. in Jersey during the month. (Jersey

includes a wind-chill factor in the calculation.)

3.9. Obviously the number of households in receipt of Income Support is unknown, but based on existing benefits it is estimated that approximately 7,000 households would qualify. If all received the sum of £200, the cost would be about **£1.4 million**. If the Parish CWP funds were ring-fenced for this purpose, net additional funds would amount to £1.2 million. A “nil cost” option for a WFP within the Income Support structures would be to repackage the funds paid through Parish Welfare as CWPs into a WFP for all Income Support recipients. Repackaging estimated funds of £200,000 (subject to verification of amounts with the Parishes) across 7,000 Income Support households would amount to a WFP of approximately £30.

3.10 **Christmas Bonus Payments**

- A lump sum payment known as Christmas Bonus is paid each December to **individuals** ordinarily resident in Jersey during the last week of December who either have a qualifying benefit (Pension, Attendance Allowance, Invalidity benefit) or have been ordinarily resident in Jersey for 5 years, have no qualifying benefit but are over pensionable age (men age 65, women age 60). The use of qualifying benefits eases administration but on average around 700 different individuals have to make manual applications each year.

3.11. Once Income Support is introduced and legacy schemes subsumed therein, Christmas Bonus is considered by the Social Security Department as the lowest priority benefit and would be offered up first in any spending review. It has always been a politically sensitive benefit in Jersey and even limiting it through the introduction of an income bar was not taken to the States for debate. Budgeted spend for 2006 amounts to £1.57 million. In recent times, Christmas Bonus has been seen as a potential vehicle for providing lump sum payments essentially to pensioners. It could indeed be used as route to deliver a WFP.

3.12. Christmas Bonus legislation already exists as does the administration and this route represents the easiest delivery option merely requiring an increase in the rate of the bonus. Its main drawback is that it is paid to individuals. The subordinate legislation for Christmas Bonus has to be amended for the Income Support system as qualifying benefits will have changed. If this were to be chosen as the appropriate route, some investigation into limiting the export of the bonus through subordinate legislation could be undertaken.

3.13. In 2005, a total of 18,122 Christmas Bonuses were paid (home and abroad). For Christmas 2006, the bonus rate will be £85 and increasing this to £185 a person would add **£1.81 million** to the budget if numbers remained the same. It is estimated that less than 1000 Christmas Bonus payments are made to people outside of the Island. If these could be excluded the cost would fall to **£1.71 million**.

3.14 **Jersey Pensions**

- At first glance this might seem to be the obvious place to start for a pensioners’ WFP. A simple extract of the Social Security database of those receiving a pension might in theory provide the right information. Unfortunately it would not and it would need considerable “cleaning” and amendment before being useable. A few obvious examples of the problems may help readers to understand the problems –

- people over the age of 60/65 and resident in the Island do not always receive Jersey pensions
- some Jersey pensioners live abroad
- pensions can be paid in certain circumstances at 60 and anytime between 63 and 65
- not all pensions are paid to individuals many are paid to agents, institutions, advocates, etc.
- joint pensions are paid for a period of time to some married couples

3.15. Whilst none of these issues are insurmountable, cleansing and maintaining the data to deliver a lump sum to **individuals** may not be an effective use of resources. If however the decision was taken to use this broad brush approach, it should be borne in mind that there is no specific legislation in place that could be

used to pay a WFP explicitly but administration may be relatively simple. In December 2005 there were 22,852 Jersey pensions in payment and if a WFP of £100 were awarded the cost would be **£2.28 million**. About a third of pension payments are paid to Jersey pensioners living abroad.

3.16 TV Licence Scheme

In 2006 a free TV Licence scheme was introduced for **households** containing a person over 75 where the household income was below the level that would give rise to an income tax liability. The system is in fact age-related and targeted by income bars. There could be some merit in using these parameters thereby maintaining some consistency. The Income Bars are currently set just above the level at which income tax liability starts for pensioners (£12,770 for a single person and £20,720 for a couple).

3.17. Legislation does exist for the TV Licence scheme but unfortunately applying it to the WFP system would mean that any grant for fuel could only be paid when the TV Licence was renewed! However the database being built up for this purpose could be usefully exploited although there would be Data Protection issues to resolve. Administratively, the TV Licence system has been set up outside of the main computer system in the Department's financial system. This was to avoid jeopardising the Income Support development. This will still be an issue for November 2007, but in due course it would be hoped to bring both these bonus type payments into the main NESSIE system if this was chosen as a suitable way forward.

3.18. Estimates for the potential number of households involved are difficult to make because of the income bar and the lack of complete data. However with a WFP of £200 for each household the maximum estimated cost is **£900,000**.

4. Comparisons

4.1. These 4 options are different and comparisons are not easy. This part of the report attempts to compare the alternatives as they stand from an operational or practical viewpoint. Clearly there are important political dimensions to this issue as well, not least the balance of targeting against universal coverage.

4.2. The comparison is made against a series of parameters –

- Coverage – who will actually receive the allowance
- Cost – the benefit cost only
- Targeted – is there a degree of targeting by means
- Legislation – can existing legislation be used
- IT systems – can existing IT systems be used without amendment

4.3. To some extent comparisons between the options is imperfect because there is no shared agreement or vision as to what WFP seeks to achieve philosophically. However to aid the comparison, the options are compared to the U.K.-style system advocated by Senator Shenton as a benchmark, not an ideal. The reason for this is that the U.K.-style system was the original amendment agreed in the States.

	<i>Unit</i>	<i>Resident 60+ (all)</i>	<i>Resident 65+ (all)</i>	<i>Others</i>	<i>Targeted</i>	<i>Cost</i>	<i>Legislation Exists</i>	<i>Exis</i>
style	Household	Yes	Yes	No	No	£2.49m	No	
e rt	Household	No	No	Yes	Means Test	£1.4m	Yes	
mas	Individuals	No	Yes	Yes	No	£1.81m	Yes	
n	Individuals	No	No	Yes	No	£2.28m	No	
cence	Households	No	No	No	Income Bar	£900k	No	

None of the options above include any provision for development and implementation cost nor administration costs.

Indicative estimates of implementation and administration costs are shown below –

	<i>Additional Implementation Costs</i>	<i>Additional Annual administrative costs</i>
Income Support	£20,000	£5,000
Christmas Bonus	£10,000	£5,000
Pension Payments	£60,000	£20,000
TV Licences	£50,000	£20,000

5. Conclusion

- 5.1. A WFP **for pensioners** cannot be introduced **by November 2007** if it is to be based on the U.K. model. Defining the target group, designing the administration and describing entitlement in Law are all critical steps that would have to be in place by November, during a period of intense activity on Income Support. It is doubtful that this could be accommodated even if all efforts were transferred from Income Support to WFP. In order to meet the November deadline, the use of existing administration (and legislation) would be necessary and the Christmas Bonus system is a preferred option. On the basis of £100 per Christmas Bonus recipient, it is estimated that the total cost would be £1.8 million p.a.
- 5.2. In the past, it had been suggested that Christmas Bonus be revamped into a Winter Bonus scheme incorporating Christmas bonuses, Winter Fuel and TV Licence Allowances. With the advent of the TV Licence Law, which has been registered in the Royal Court, any rationalisation of bonuses is now limited to Christmas Bonus and WFPs. Changes to subordinate Christmas Bonus legislation have to be made to accommodate Income Support and the replacement of some of the old qualifying benefits. This could allow an interim solution to be in place by November 2007 with a view to a complete review of the bonus arrangements in 2008.
- 5.3. Alternatively, if the targeting of all pensioners is to be questioned, Income Support offers a vehicle that would allow money to be targeted to most low income households who may be considered vulnerable. Again on the basis of £200 per household, this would cost an estimated £1.4 million p.a.

The funds for this would have to be found from across existing States resources. Assuming the Income Support budget is regarded as sacrosanct the first cut which the Social Security Department would propose, if asked to find funds to contribute to the cost, would be the Christmas Bonus Scheme.

A nil cost option at about £30 per household could be funded within existing Income Support budgets by repackaging the CWP's budget within Parish Welfare.

A more generous and so-called "nil cost" option would be to use funds from within the Income Support Budgets to pay a higher WFP to all Income Support recipients, however, this would reduce funds available for other components with the Income Support scheme.

6. Recommendation

The Council of Ministers are asked which of the options they would favour the Social Security Department developing further to lodge with the States for debate.

7. Additional Matters for consideration

- 7.1. There are several incidental issues that should also be borne in mind when considering WFP.

7.2 Pension Age

Using the term “pensioner” is not as straightforward as it seems. Not only do different countries start paying pensions at different ages (France 55 in some cases), but the same country can have different pension ages for different people. The classic example is the different pension ages for men and women, which seems a little strange these days, particularly as women on average live longer than men. Most countries are now moving to systems where pension ages are “equalised” between men and women. Jersey started this in 1974 and the difference has been eroded as women have entered the scheme since 1975. The last woman eligible for a pension at 60 will have been 15 in 1975 and will be 60 in 2020.

- 7.3. The issue behind “pension age” or “pensioner” is implicit discrimination by sex. It is important to realise that the U.K. system for WFP is totally **age** related with both men and women equally eligible above the age of 60. People under pension age in the U.K. get WFP. Adopting an age condition of 65 for men and women, may provoke some reaction from women pensioners under 65.

7.4 Benefits as property

Discussion around the WFP proposals highlighted the fact that the U.K. WFP was paid abroad, essentially to EU, EEA countries and Switzerland. These countries all have a co-ordinating legal instrument between them dealing with export of benefits and in simple terms if a WFP has previously been paid by the U.K., a person moving to one of these countries can continue to receive the benefit. Although this has a lot to do with the equal treatment of nationals across Europe, there is also a view that the benefit in terms of the European Convention on Human Rights may be considered to be personal property. There have been rulings on contributory or insurance benefits that have confirmed this view and there are cases looking at non-contributory benefits in this light. The question becomes more complicated when “pension” benefits are used as passports to other benefits. This may develop into an issue that requires some detailed legal advice.

7.5 States’ Tenants

Like everybody else States’ tenants have to pay fuel costs but for some the heating is communal. The Housing Department charge their tenants an amount which is not a “market” rate but is calculated from a discounted rate available to Housing as a bulk purchaser. In effect there may be a hidden subsidy for some people who might be eligible for WFP, and indeed Income Support and so it could be argued that they are getting more financial assistance than others.

7.6 Perception

Whatever mechanism is chosen to deliver WFP, the public, or at least specific sections of the population, will perceive it differently. Previous examples of this effect in Jersey benefit history are the adoptive parent grant and Mobility Allowance/Disability Transport Allowance. If WFP is introduced by increasing the Christmas Bonus rate, how will this be perceived? Will a call for a WFP be made in several years’ time?

7.7 Evidence

There has been no hard evidence demonstrating both the need for a WFP or its targeting to people over 60. There are other disadvantaged and vulnerable groups and, on the other hand some high income 60 year olds. There is no evidence that the U.K. rate is too much or too little. Does a single pensioner need half as much to heat his/her house as a pensioner couple? Recent research by DWP showing that pensioners are effectively savers rather than spenders has not been introduced into this argument.

- 7.8. This paper does not offer comment on the philosophy of an untargeted WFP at the time that an integrated Income Support system is being developed. It offers options for a WFP against the States’ decision in the debates on the Strategic and Business Plans.

7.9 **Data Protection**

- There is always an issue about using data for a purpose for which it was not collected. Data Protection issues have not been raised here but could be a consideration depending on the way forward.

January 2007