

**STATEMENT TO BE MADE BY THE CHAIRMAN OF THE HEALTH, SOCIAL
SECURITY, HOUSING SCRUTINY PANEL
ON TUESDAY 29th MARCH 2011**

I wish to illustrate a number of the points made in SR3/2011, Review of Benefit Levels, by reference to one of the hypothetical case studies. If members find the whole report tough going, then may I recommend that they read the case studies, which clearly set out the issues involved in what is inevitably a complex piece of work.

Case Study “Marie”

‘Marie’ is 26 and rents a one-bedroom flat. Her basic needs are covered by the ‘basic components’ of Income Support that total £140.70 per week (£7,352 per year). Until recently, Marie was “sofa-surfing,” that is, sleeping on her friend’s couch and had been for two months. Despite looking for accommodation which was affordable, she had been unable to find anything suitable. During this time her weekly Income Support to meet her basic needs was £92.12 (£4,813.27 per annum) as a non-householder. **Lack of Affordable social rented housing**

As a single, fit and healthy young person with no special needs, Marie is not eligible for States housing despite being a low earner. She therefore is one of the 30% of all Income Support claimants who rent in the private sector. After two months of searching, she is lucky to have found a one bedroom flat at the fair rent level of £152.53. Her rent is fully covered by the accommodation component of her Income Support. **Housing waiting list criteria defective.**

When we add together her basic and rent components, we find that rent constitutes over half of her overall Income Support level. Her total maximum Income Support is £293.23 per week or £15,247 annually. Marie finds full-time work (37.5 hours) at the minimum wage of £6.20 per hour. She therefore earns a gross weekly wage of £232.50 which is £218.55 net after social security contributions. Her earnings are topped up by Income Support by the amount of £113.04 a week. **Dominance of rental component and low minimum wage produces high dependency on IS.**

Marie’s employer asks her to increase her hours to 40 hours a week (an additional 2.5 hours). Her gross earnings rise to £248 and her take-home pay to £233.12. Her Income Support, however, falls to £101.03 per week. This means that her extra wages of £15.50 only gave rise to a net increase in income of £2.56. Her additional hours had a real hourly rate of just £1.02 as she faced an ‘effective deduction rate’ (from social security contributions and Income Support withdrawal) of 83% for every pound of additional earnings. Marie is worried about being made redundant but realises that if she were, she would only be £40.92 worse off if she were unemployed. She works out that she would be able to manage on the £293.23 she would get if she were unemployed. **IS earnings disregards and tapers give poor incentives to work.**

Some weeks later it is pointed out to her that if she continues to work 40 hours a week, her gross earnings over the year will rise to £12,900, and that this is above the tax threshold of £12,650. By working the additional 2.5 hour a week, she has made herself eligible to pay tax. She is £133.12 pence better off a year but is now liable to pay tax at the marginal rate of 27% on £250 of her earnings; a tax bill of £67.50. **Overlap of income tax and IS thresholds is inefficient**

Does Marie’s income from Income Support mean that she is in relative ‘poverty’?

The after housing cost (AHC) relative low-income threshold for Marie, taken from JIDS2009/10 data, is £210. If she continues to work 40 hours a week, her net income, after she pays her rent, will be £181.62, leaving her below the low-income threshold. **IS levels may be set too low**

I believe this report is thorough and comprehensive. It should form the basis for a much improved and better focused social policy strategy over the coming decade. I hope that the Social Security minister will accept it as an accurate and positive contribution to future decision making on low incomes.

I would like to thank all those who contributed in any way to this report especially the members of my Panel and the officers concerned for their dedicated efforts.

6. The Chairman of the Health, Social Security and Housing - statement regarding the Income Support Benefits Review

Deputy G.P. Southern

Consent has been granted, yes.

Connétable D.W. Mezbourian of St. Lawrence:

May I just tell the House that it was not a consensus; I have dissented from the chairman making this statement.

The Bailiff:

So, chairman, the statement?

6.1 Deputy G.P. Southern (Chairman of the Health, Social Security and Housing Scrutiny Panel):

I do not know whether Members have had time to read the latest report; I suspect not. But I wish to take the opportunity to illustrate a number of the points made in S.R.3/2011 - Review of Benefit Levels - by reference to one of the hypothetical case studies. If Members find the whole report tough going, and it is a bit tough, then may I recommend that they read the case studies, which clearly set out the issues involved in what is inevitably a complex piece of work. I wish to take you through the case study of Marie. Marie is 26 and rents a one bedroom flat. Her basic needs are covered by the basic components of income support ...

Senator P.F. Routier:

Is this public information all ready? I have read it ...

The Bailiff:

No. The Chairman is making a statement about the fact that ...

Senator P.F. Routier:

I have read the report and I ...

The Bailiff:

The Chairman is perfectly entitled to make a statement. Ministers do it regularly when they are announcing something. **[Laughter]**

[12:15]

Deputy G.P. Southern:

Thank you, I am very grateful for that intervention. Her basic needs are covered by the basic components of income support that total £140.70 per week. Until recently Marie was sofa-surfing, which is sleeping on a friend's couch, and had been for 2 months. Despite looking for accommodation which was affordable, she had been unable to find anything suitable. During this time her weekly income support to meet her basic needs was £92.12 as a non-householder. This points to the lack of affordable social rental housing which occurs in the Island now. As a single, fit and healthy young person with no special needs, Marie is not eligible for States Housing, despite being a low earner. She is therefore one of the 30 per cent of all income support claimants who rent in the private sector. After 2 months of searching she is lucky to have found a one-bedroom flat at the fair rent level of £152.53 per week. Her rent, therefore, in this case, is fully covered by the accommodation component of her income support, but it points to certain defects in the housing waiting list. When we add together her basic and rent components, we

found that the rent constitutes over half of her overall income support level. Her total maximum income support is £293.23 per week or £15,000 annually. Marie finds full time work, 37.5 hours at the minimum wage of £6.20 per hour. She therefore earns a gross weekly wage of £232.50 which is £218.55 net after social security contributions. Her earnings are topped-up by income support to the amount of £113.04 a week. This points to the dominance of the rental component and how the combination with the low minimum wage produces high dependency on income support. Marie's employer asked her to increase her hours to 40 hours a week, an additional 2.5 hours a week. Her gross earnings rise to £248, her take home pay to £233. Her income support, however, falls to £101. This means that the extra wages of £15.50 only give rise to a net increase in income of £2.56. Her additional hours had a real hourly rate of just £1.02 as she faced an effective deduction rate from social security contributions and income support withdrawal of 83 per cent for every pound of additional earnings. Marie worries about being made redundant, but realises that if she were she would only be £40.92 worse off, if she were unemployed. She works out that she would just be able to manage on £293 a week she would get even if she were unemployed. But what this points to is that income support earnings disregards and tapers give poor incentives to work. Some weeks later it is pointed out to Marie that if she continues to work for 40 hours a week her gross earnings over the year will rise to £12,900 and that this is above the tax threshold of £12,650. By working the additional 2.5 hours a week, she has made herself eligible to pay tax. She is £133 better off a year, but is now liable to pay tax at the marginal rate of 27 per cent on £250 of her earnings, an additional tax bill of £67.50. Here is a serious defect, I believe, in that there is an overlap between income tax thresholds and income support thresholds it is possible to receive money and to pay. That is an inefficient method. Does Marie's income from income support mean that she is in relative poverty? The after-housing cost relative income low income threshold for Marie, taken from the Jersey Income Distribution Survey 2009/10 data is £210. If she continues to work for 40 hours a week her net income after she pays her rent will be £181.62 leaving her substantially below the low income threshold. It may well be that income support levels are in fact set too low. I believe this report is thorough and comprehensive. It should form the basis for a much improved and better focused social policy strategy over the coming decade. I hope that the Minister for Social Security will accept it as an accurate and positive contribution to future decision making on low incomes. I would like to take this opportunity to thank all those who have contributed in any way to this report, especially the members of my panel and the officers concerned for their dedicated efforts. Thank you.

The Bailiff:

Very well. Then there is an opportunity for questions. Deputy Gorst?

6.1.1 Deputy I.J. Gorst of St. Clement:

The chairman in his report's foreword talks about inherent structural faults in income support. This is in direct contradiction to a written submission to his panel by the Citizens Advice Bureau which says this: "We remain fully supportive of the concept of a universal means tested benefit and believe that the income support scheme requires tweaking rather than wholesale reform." Therefore, could the chairman justify his statement in light of this clear evidence from a respected non-partisan and local organisation?

Deputy G.P. Southern:

I believe the statement he is making came from the previous chief of Citizens Advice Bureau and I believe that when the current chief reads the report he will start to understand what I refer to as basic structural defects. I really would like not to be commented at from across the Chambers, as often happens.

The Bailiff:

Senator Le Main, would you please ... no, no, do not interrupt the speaker.

Deputy G.P. Southern:

The Senator can believe what he believes and I will believe what I believe. The new chief of C.A.B. (Citizens Advice Bureau) will become aware of what I refer to as serious defects in the structure and the interaction with other social and taxation policies, which mean that income support, while a move in the right direction in unifying all benefits and centralising the administration is good, then in fact we have not got it right and we have got it far from right at the moment. It needs a thorough overhaul.

6.1.2 Deputy I.J. Gorst:

Would he admit that his comments are quite discourteous to the previous head of the Citizens Advice Bureau? I understand that the submission was presented on behalf of the Citizens Advice Bureau as a whole and it was the combined contribution of the Bureau and not just an individual's comments. He says, and I am pleased that he admits that there are structural problems with income support ... we will see from his statement that at least the first 3 points are in relation to housing and not necessarily directly ... he can lay at the door of income support. He knows that work is going on in this regard. He then says that an individual would be £2,000 better off working and yet his conclusion is that the work and disregards are not working. I am afraid he cannot have it both ways. The evidence he is presenting is not backed by fact.

The Bailiff:

What is the question, Deputy?

Deputy I.J. Gorst:

I am asking him why he believes he can have it both ways? Why is it that he is saying one thing but the evidence he is presenting is something else?

Deputy G.P. Southern:

I certainly meant no offence to anyone at C.A.B. by my remarks, and that certainly was not my intention. However, I believe that the figures we have produced point clearly to what is effectively very low incentives to either find work or to increase working hours within the system. The disregard and tapers are such that people end up working effectively for a pound an hour. Those incentives must be improved if we are really going to achieve what the Minister says he wishes to achieve, which is to get people back to work. Those incentives, as he admits himself, require improvement, otherwise we will not be dealing with an in-work benefit that incentivises work and we should do.

6.1.3 Deputy A.E. Jeune:

Can the chairman please explain why he expects the hardworking taxpayer of the Island to pay more to allow the unemployed benefit levels to grow to 60 per cent of median income without such persons doing a stitch of work, as identified in Chapter 12 of his report, Finding 6, and why does his report not include results from the major public survey his panel conducted last year? How much time and money was spent on this? Why have these results not been given in the report? Thank you.

Deputy G.P. Southern:

That was a worthy effort. **[Laughter]** The first statement was about asking hardworking families to pay more tax. This report does no such thing. It says that those hardworking families may well, at this very minute, be being made redundant and need to be supported properly. What it does say - and here we go again, still hearing comments - is that we should not take the cheap and

easy option of cutting the level of benefits at this time, because the level of benefits are already shown to be possibly less than adequate to support people properly. I forget the second half of the monologue, but if the Deputy would like to repeat the question I will give it a ...

The Bailiff:

I think it was quite a long question. I think other Members wish to ask questions as well, Deputy, so if you do not mind we will move on.

6.1.4 The Connétable of St. Lawrence:

I sense that Members are somewhat bemused at the statement that the chairman has made today, simply by reading a large tract from the report and I wonder whether he will tell the House what value he thinks he has added to the report by making a statement in this form?

Deputy G.P. Southern:

I believe that Scrutiny has a duty to draw on every occasion they can... to draw attention to the essential facts that are contained in reports in order that they are not misinterpreted and not used for other means or not spun by Ministers when they respond to particular points that are being made. I believe this report is accurate and contains lots, as the Minister himself points out, that he says is merely finessing the system. In that case, I hope to see that the recommendations it puts forward are brought forward by that Minister in short notice.

6.1.5 Deputy M.R. Higgins:

It may have been partly answered, but my question is; I have just read the Minister's press release on the panel's report, which to my mind looks pretty wishy-washy, and I would like to ask the chairman's view of the Minister's response to his report. What does he think of his comments in relation to the report?

Deputy G.P. Southern:

I think I may well have already given a part answer to that, but the Minister refers to a mere finessing of the current system. Therefore, what I believe are substantial recommendations, if he regards them as just finessing I think there would not be a problem in a positive response from the Minister when he finally gets to mull over and fully consider his response that many of these recommendations will be accepted.

6.1.6 Deputy R.G. Le Hérissier:

One of the attentions in the design of a welfare system is providing enough for people less well-off so they can have an adequate life, but not providing enough so that they are disincentivised from working, and this is addressed. Surely the logic of the statement or the case study presented by the chairman is that the gap should be wider, which seems a rather strange outcome. Secondly, could the chairman speak on whether the panel looked at the whole issue? I have no problem with proper welfare entitlements. What I do have problems with is when welfare systems tip into welfare dependency. Did the panel look at this issue and what solutions did they come up with in the Jersey context?

Deputy G.P. Southern:

As the Deputy full well knows, it is not the role of the Scrutiny to come up with alternative policies. That is a nightmare. So [Aside] ... if the Deputy would not mind. We do in fact examine the concept of a benefits trap. Where we are focused and what seems to be there is that by rolling in the rental element into the welfare element, what we have is a tremendous stretch into salaries and incomes which appear to be far too high. Yet still in receipt of income support.

[12:30]

In fact, it is possible under our system to be receiving income support with one hand and paying income tax with the other. Now that, I believe, needs restructuring in order to remove that inefficiency from what we are doing. We should not be sitting here paying out money on the one hand, and taking it in with the other, that is obviously inefficient and that needs, I believe, a quite rapid look at in order to sort that out. Yes, so we have examined the possibility of a benefits trap, it is caused by this lumping together ...

The Bailiff:

A concise answer please, Chairman.

Deputy G.P. Southern:

We believe that under the transformation plan that we keep hearing from the Housing Department we will see, I think, within the 2 years, I hope, a removal of that.

Deputy R.G. Le Hérisier:

The welfare dependency issue.

Deputy G.P. Southern:

It depends on the incentives and the tapers that are built-in to ensure that people are substantially better off in work. What it points out to, also, is that with the minimum wage set as it is, if that does not go up then the Income Support bill does go up, that we, in fact, are subsidising it. One of the considerations we must take into consideration is we are subsidising the minimum wage.

The Bailiff:

Senator Perchard, can I ask not to have derogatory comments about other speakers. This is not the way we run this Assembly.

6.1.7 Senator F. du .H. Le Gresley:

I would like to congratulate the chairman on his report, I have read the whole of it. But, unfortunately in his statement he has chosen to use this case study where there is an error. In paragraph 4 he refers to the 83 per cent for every pound of additional earnings; that figure should be 77 per cent, does he agree? Because the Social Security Income Support Scheme ignores the 6 per cent social security? So therefore that figure should be 77 per cent.

Deputy G.P. Southern:

I will certainly go back and check those figures with the Senator and if we have made that mistake, I apologise.

The Bailiff:

Very well, that brings questions to the chairman to an end.