



Scrutiny Management Committee

In-work Poverty Review

31 October 2017

Consultation Document

Contents

Contents	2
Acronyms	3
Vice President Introduction	4
Executive Summary.....	6
1. Introduction	9
2. Background	11
3. Current Policy	15
4. The Minimum Wage	16
5. Housing	20
6. Fees & Charges	26
7. Childcare	30
8. Taxation	32
9. Social Security – Benefits and Contributions.....	35
10. Interim Conclusions and Recommendations	37
Appendix 1 – Terms of Reference.....	42
Appendix 2 – Scrutiny Management Committee Mandate.....	44
Appendix 3 – Evidence Received	46
Appendix 4 - Key Documents Reviewed	49
Appendix 5 - In-Work Poverty Review Timeline	51

Acronyms

Acronym	Definition
CAPP	Corporate Anti-Poverty Programme
GHA	Guernsey Housing Association
GP	General Practitioner
GST	General Sales Tax
HES	Household Expenditure Survey
KPMG	Klynveld Peat Marwick Goerdeler
SGLS	Survey of Guernsey Living Standards
SMC	Scrutiny Management Committee
SWBIC	States' Welfare Benefits Investigation Committee
VAT	Value Added Tax

Vice President Introduction

The issue of in-work poverty is a complex one with few easy solutions. If Guernsey wants to reduce the number of people unable to enjoy the standard of living most Islanders would regard as the minimum acceptable it will take a range of separate measures. That said it is vital that these measures are not taken in isolation and that the States remain aware of their inter-relationship and cumulative effect.

With limited resources, the Scrutiny Management Committee (SMC) cannot come up with all of the answers, nor is it our role to do so under Guernsey's system of government. Indeed with the scarcity of data available it has even been hard to quantify the problem but our investigation has left us in no doubt that it is significant and debilitating to individuals, families and the community.

We have not been able to gather the type of evidence that a panel might expect to in the course of an inquiry. Nevertheless, we consider that we have sufficient evidence on which to build a case and draw up proposals for detailed consideration by principal committees. What we have produced is a document designed to elicit a reaction and give rise to an informed discussion. This should be seen as a report which is designed to draw attention to the lack of data and, insofar as the evidence permits, to develop a set of proposals for comment. We know that in some areas we may have only skimmed the surface of the problem but we have gone as far as we can with the data available. We have ranged widely in considering the options for alleviating in-work poverty. This was inevitable given that in-work poverty is usually the result of factors outside of work rather than of wage levels in work. If there is a common thread running through the report it is recurring situations where a small increase in earnings leads to a significant loss of benefits and allowances which outweigh that earnings increase. In some cases there are tapers to mitigate these effects but far too often there is a cliff-edge.

In-work poverty affects people's health and well-being, erodes confidence and capability, and damages life chances. It also impacts our local economy, depriving it of the skills and talents of people who could otherwise contribute and at the same time costing the States in benefits. People in in-work poverty experience daily insecurity and uncertainty and they are getting into debt.

The factors which can plunge a person into poverty can affect almost anyone. In-work poverty in this Island is not a problem for 'them', it is a problem for everyone who wants to see a cohesive and fairer society. In an otherwise prosperous society, significant levels of poverty indicate failure by community and state, and both must be involved in the solutions.

Some might ask us why we limited our investigation to 'in-work poverty' when poverty also exists amongst those who don't work either through age, disability, or caring responsibilities. The answer is not that we don't care about other forms of poverty but we chose to focus on in-work poverty because it concentrates attention on people who are doing all the things society asks of them but are still poor.

The Panel were also aware that following the Pritchard Requête in 1998 and the resulting Townsend Report the States did take some steps to address pensioner poverty while the parallel issue of in-work poverty was left virtually untouched.

Remuneration for all work in the local economy should be fair and offer realistic scope for the employee's development and fulfilment. The Panel endorses the contribution of the minimum wage and the benefit system in tackling in-work poverty. Fairness, however, demands that we ensure people, particularly those on lower incomes have the opportunity to fulfil their potential, have routes to progress and are treated with respect and decency at work.

Although economic growth in Guernsey continues to be reasonable, not all households benefit from it. For many people life is hard, they work full time but increasingly struggle to make ends meet. As part of this review we were told stories that need to be heard and responded to.

The most commonly cited economic statistic of per capita gross domestic product continues to show Guernsey as a rich country and getting richer. But those numbers are averages, which do not capture the distribution of income. With a major share of recent income gains flowing to a relatively small slice of high-earning households, many local people are not maintaining their living standards. Too many of those in work experience genuine poverty.

The Panel's full, interim, recommendations are set out at the end of this report but the headlines are:-

- The issue of in-work poverty needs to be considered far more and given higher priority in the States policy formation.
- The trend towards replacing general revenue funding of basic public services with charges which do not relate to ability to pay must cease.
- Far better access to affordable childcare is needed to help people increase their incomes while also helping the broader economy.
- High housing costs are a prime cause of in-work poverty in Guernsey so the States must do more to ensure those on modest incomes can access affordable accommodation.
- Everybody seems to agree that the cost of primary care is a huge issue and "something must be done". It is now time for the Committees *for* Health and Social Care, Employment & Social Security and the Policy & Resources Committee to act.
- It is vital to encourage Islanders to increase their earnings by removing any financial 'cliff edges' from our social security system.
- A longer term strategy for increasing Guernsey's minimum wage is needed but this is not likely to impact significantly on in-work poverty.
- A far more focused approach is needed towards helping the less well-off through our tax system than simply increasing the personal income tax allowance.
- The attitude displayed by some that 'the poor' are a community apart is deeply unhelpful and fuels resentment.
- Improved data is required to accurately quantify in-work poverty in Guernsey.

Executive Summary

This document's aim is to stimulate an informed discussion. It draws attention to the lack of data, but wherever possible and where the evidence permits, it elaborates proposals for comment. We have deliberately ranged widely in considering the options for alleviating in-work poverty. This was inevitable given that in-work poverty is usually the result of factors outside of work rather than of wage levels in work. If there is a common thread running through the report, it is the recurring situations where a small increase in earnings leads to a significant loss of benefits and allowances which outweigh that increase in earnings. In some cases there are tapers to mitigate these effects but often the effect is that of a cliff-edge.

The conclusions are based on an analysis of the evidence. However, in some areas we have gone as far as we can with the data available. Indeed the Policy & Resources Committee recognised that a lack of meaningful data may be a hindrance to the review:

“To summarise, the Committee is supportive of a review of this topic and considers that the findings will be of assistance in future policy development. Whilst the commitment to addressing issues around poverty and inequality is clearly in place at a high level, more information is needed around the extent of these issues before they can be addressed in a meaningful way.”

One of the key recurring themes of the investigation into this area is a frustrating lack of sound data upon which to base decisions. For example, we do not know how many public sector employees are receiving in-work benefits or how many people in Guernsey are paid the minimum wage but just because we cannot measure effectively in some areas does not mean we can walk away from the problem, or wait until the data is available; we believe there is sufficient evidence to persuade us of the urgent need to address in-work poverty locally.

In Guernsey relatively few working age people receive benefits, other than rent rebates (583 at 01.07.17) and even fewer receive in-work benefits (262 at 01.07.17) while in the UK this percentage is much higher with around 5 million people benefitting from this system in 2017¹. However, a very substantial proportion of households with at least one person of working age are below the 60% of net median household income threshold. What this means is that a large proportion of households experience real poverty in terms of a recognised international indicator but get no state assistance. For many people in Guernsey this is the reality of life in 2017.

The Panel suggests a number of areas where changes are required. Firstly, increased support for childcare provision to support family members (usually women) to return to work more quickly if they choose to do so or work longer hours. Currently the costs of childcare may prohibit people returning to work when many would prefer to do so and childcare remains a significant barrier to employment for many local families, and it is no surprise that families with children are represented amongst those who struggle to exit poverty as they enter work. Supporting families' work-life balance has to be central to government policy and additional support that enables parents to balance work and family life, for those who wish to return to work, is required.

Secondly, government policy also needs to seek to reduce housing costs for those on lower incomes. Housing costs have become increasingly important in driving poverty rates and a more

¹ (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/613427/cwtc-geog-Apr17.pdf)

interventionist approach is needed to deliver the policy objectives around affordable housing costs. The growth of the private rented sector, with the high housing costs that that often implies, will wipe out many of the gains made elsewhere for example, in terms of any increased minimum wage. In the absence of an active housing policy that seeks to bring down housing costs, politicians will find themselves needing to do more (e.g. spend more on the housing element of social security generally) just to stand still in terms of poverty rates. The worry is that rising housing costs will push up in-work poverty rates further still and add to the pressures on the tax payer.

Evidence clearly shows the availability and cost of housing presented considerable difficulties for families. In addition the recent changes in the population regulations may create additional competition for the current 'affordable' homes. What we do know from research elsewhere is that housing is a central element of in-work poverty. Nevertheless, given the existence of a minimum wage, we consider it unrealistic for Guernsey's minimum to lag behind that in the UK when our cost of living is higher. Therefore, there will almost certainly need to be a significant increase in Guernsey's minimum wage over the next few years, to mirror planned rises in the UK. This process should be planned in advance over a 3-5 year timescale to allow employers to plan and adapt.

Thirdly, while accommodation and childcare costs are significant, the cost of visiting a GP in Guernsey is undeniably a major issue for a large section of the population. In a few cases where chronic conditions require multiple visits to the doctor, or for families already struggling, the cost of primary care could tip into poverty households who otherwise would be able to achieve a reasonable standard of living. Addressing this issue is central to any analysis of in-work poverty locally.

Additionally, in recent times the States has moved towards user charges to replace funding from general revenue. While income tax broadly relates to the ability to pay, user charges in general and water consumption, in particular, do not. The financial burden of dealing with, for example, waste water has therefore arguably shifted to those on lower incomes. The same is potentially true of the proposed new charges for household waste disposal. These proposed changes could disproportionately affect those on the lowest incomes.

Fourthly, the evidence also indicated that increasing the level of the minimum wage from the existing level to the proposed figure will not address the majority of in-work poverty issues affecting the Island. The real issues are affecting those people with a level of income significantly above the minimum wage, not in receipt of benefits, yet still struggling to make ends meet.

The move to implement the States' Welfare Benefit Investigation Committee's (SWBIC) resolutions will make the current benefit system fairer and the Panel support this aim. However, for certain people the current benefit system in some circumstances arguably disincentivises additional work and earnings. The current system with its eligibility limits in terms of earnings and benefit cap may not motivate all those currently in receipt of benefits to work harder, to earn more and potentially to progress to a higher standard of living (this is explored in more detail in later sections).

Historically the States has sought to assist those on low incomes through the provision of universal personal allowances, but this is a potentially costly approach. Assistance could be focussed on those who need it most by the use of 'additional personal allowances' only available to those on modest incomes or by a tapered withdrawal of the basic personal allowance at a lower level of income. Despite the challenges of these options we recommend that the Policy & Resources Committee

should consider such an approach because it will make assistance to those on lower incomes far more targeted and therefore more affordable.

Tackling intergenerational poverty is one of the key themes of recent government social policy documents. The Panel believe that the current benefit system does not support the aim of assisting working families to move out of relative poverty. This area needs to be considered in terms of how it aligns with the overarching policy aims of the Policy & Resource Plan. A striking feature of the feelings expressed by a proportion of this review's respondents is the perceived gap between the rich and the poor in Guernsey. This perception that Guernsey is a patrician community, with the great and the good deciding how the 'poor and feckless' are treated must be addressed in future government policy.

1. Introduction

“As long as poverty, injustice and gross inequality persist in our world, none of us can truly rest”

Nelson Mandela

This report commissioned by the Scrutiny Management Committee (SMC) set out to review the current policies and strategies of the States of Guernsey relating to ‘In-Work Poverty’ and the effectiveness of their implementation. This analysis included issues related to the minimum wage, housing, access to healthcare, and supplementary-benefits.

The Committee formed a ‘Review Panel’ (the Panel) which included representation from political members of the States of Guernsey and those independent of the Government. The Panel’s membership comprised Deputy Peter Roffey (Chair), Deputy Laurie Queripel, Deputy Rhian Tooley, Mr Wayne Bulpitt CBE, Dr Sue Fleming and Mr Paul Ingrouille. The project was supported by the Office of the Scrutiny Management Committee. Following an initial desktop exercise to assess the current available information, the Panel launched a formal consultation involving the relevant elements of Government, the public and other interested parties.

The Panel’s open public consultation was followed by a series of targeted interviews to address any evidence gaps in the initial response. The process has identified a number of issues, some of which were expected, but additionally a number of unexpected areas emerged that require further consideration.

The Panel considered the following areas as part of its review: the adequacy of Guernsey’s minimum wage; the impact of Guernsey’s taxation and social security system on low income households; the current and future provision of in-work benefits; the issues related to access to affordable healthcare provision; the issues related to access to affordable housing; and the impact of other States’ charges on low-income households.

The Panel has sought to analyse in-work poverty in the context of the existing policy framework with the intention of commenting on its suitability and making recommendations where appropriate for further consideration by Principal Committees. The recommendations are based on albeit limited evidence and available data; they are aimed at ensuring Islanders’ needs are better served, whilst at the same time looking to use resources efficiently and effectively.

Why Poverty Matters

Poverty is damaging not only to those directly affected but to Guernsey’s economy and wider society. Poverty leads to additional public spending on health, education, social care and the criminal justice system and gives rise to additional costs resulting from lost tax revenues and significant costs to the social security system.

Poverty can cast a long shadow over people’s lives. Research in the UK suggests that children who grow up in low-income households have poorer mental and physical health than those who grow up in better-off families, and people who have experienced poverty or live in a deprived area have fewer years of life free from illness or disability and are likely to die sooner. We also know that children from low-income backgrounds have worse results at school, increasing the risk that poverty will be passed from one generation to the next.

For Guernsey, poverty acts as a brake on economic growth, limiting the skills and talents available to employers, reducing earnings potential which affects tax revenues, and diverting States' resources to top-up low wages that could be used in other ways.

Guernsey has a very high percentage of adults in work, a feature which is normally one of the main 'protective' factors that guard against poverty. However, recent years have seen an increase in in-work poverty connected in part to the local effects of the global economic downturn.

Work has traditionally been seen as the main way for households to avoid or escape poverty, but for work to offer this protection against poverty, workers may need to earn more, either through higher hourly wages or by working more hours. However, for some people low-paid work is often the only option. This is especially the case where other considerations are pressing. For instance, caring responsibilities, disability and ill-health can all result in people being able to work only part-time, in sectors where low pay is prevalent.

It was against this backdrop that the SMC decided to consider the subject of in-work poverty in Guernsey. The decision resulted from concerns regarding the plight of Islanders experiencing significant financial hardship whilst being in employment. People were doing what was expected of them, finding work, yet they were still poor with little chance of progression in society.

As in the UK, the States is spending a large amount of money supporting people who are in employment. This review seeks to clarify how the States of Guernsey strives to address in-work poverty; determine how effectively policy is implemented and adhered to; and assess whether Guernsey's current policy regarding in-work poverty is fit for purpose.

Since 2012 three significant reports concerning welfare benefit reform have been presented to the States. All three have looked specifically amongst other priorities to modernise the welfare system, in particular in its application as an 'in-work benefit' as well as its historic application as an 'out of work benefit'.

The first attempt was in March 2012, when the then Social Security Department presented a report entitled 'Modernisation of the Supplementary Benefit Scheme'. This report proposed fundamental changes to the supplementary benefit legislation in order to make the benefit more suitable as an 'in-work' benefit. This theme was continued in the second report to the States was in October 2013, when the then Social Security Department included revised proposals for the modernisation of the Supplementary Benefit Scheme with the Department's annual report on contributions and benefit rates for the following year, and then in the Social Welfare Benefits Investigation Committee (SWBIC) which was constituted as a Special Committee of the States on 6th December 2013 and reported in March 2016.

The idea of in-work poverty is relatively new. Traditionally references to poverty have focussed on those who were unemployed and in receipt of benefits. In March 2007, the UK Department for Work & Pensions acknowledged both the extent and importance of in-work poverty and from this point forward UK government policy has actively sought to address the issue. For the majority of its 40 year existence, Guernsey's supplementary benefit scheme has provided financial assistance principally to people who have not been in work.

2. Background

“Poverty is the worst form of violence” Mahatma Gandhi

The SMC has chosen to review the current policies and strategies of the States of Guernsey on ‘In-Work Poverty’ and their effectiveness; this includes issues related to the minimum / living wage, housing, access to healthcare, and supplementary-benefits.

In 2003, the States of Guernsey considered a policy letter for an ‘anti-poverty strategy’ which was informed by research from the Townsend Centre, University of Bristol (following a Requête in March 1998). This strategy identified a number of areas for action: Benefit & Tax Measures, Education & Employment Services, Services for Older People & People with Disabilities, Crime Reduction Initiatives, Fiscal & Legislative Measures, and Housing under the (then) Corporate Housing Programme. In subsequent years, further policy letters have been considered by the States of Guernsey that include the Minimum Wage (2007); the Living Wage (2015), Measuring Poverty & Income inequality (2016) and Social Welfare Benefits Investigation Committee (SWBIC in 2016).

The number of people living in poverty in Guernsey has long been a concern of the States. Major surveys, as well as government programmes, business plans and strategies, have sought to define, locate, target and reduce the problem of poverty. The 1998 Requête on low-income earners (Billet d’Etat XII, 2000) led to the 2003 Anti-Poverty Strategy and Corporate Anti-Poverty Programme (CAPP), based on the 2002 Townsend Report on the Survey of Guernsey Living Standards (SGLS). The SGLS found that 16% of Islanders experienced relative poverty, and another 5% were at risk of poverty, even though the majority of Guernsey people had a high standard of living.

Although the SGLS was never repeated, a Household Expenditure Survey (HES) was carried out in 2005-06, which provided information and detailed analysis about the income, expenditure and social aspects of different household compositions. This showed that people living in social housing and private rented accommodation had a level of weekly household expenditure which was significantly lower than the mean average for Guernsey (£749 per week), at £414 and £673 per week respectively.

Three years after the launch of the Anti-Poverty Strategy, the HES showed that 16.6% of the population, a figure almost identical to that of the Townsend Report remained in relative poverty, defined as an income equal to 60% or less of the median Guernsey income. Two thirds of this group had no more than half of the average income, which indicates an even greater degree of deprivation.

Definition

In-work poverty occurs when a working household’s total net income is insufficient to meet its basic needs. Low pay is one possible reason for in-work poverty, but we must consider the circumstances of the whole household and not just the person in paid employment; poverty may be the result of family circumstances and particularly the number of dependents, rather than the wage level of the main bread-winner. Because in-work poverty is about total household resources and whether these are sufficient to meet their household’s needs the policy options to tackle in-work poverty are more varied than they may, at first glance, appear.

The Guernsey Community Foundation told the review:

“States Members often cite work as being the best route out of poverty: when debating the welfare system and the notion of benefit dependency, the mantra is “work pays”. Yet even with the minimum wage in place it is clear that, for many Islanders, work does not pay enough... In approving the Children and Young People Plan, the States committed to ensuring that all the Island’s children have the best possible start in life. This commitment should be taken into account when setting the minimum wage...”

In January 2016² the States of Guernsey agreed to ‘improve and broaden the measurement of relative poverty’ to give a more accurate and rounded picture of potential deprivation. Previously, measurements focused only on relative income poverty. The chosen methodology was broadly based on that used to compile the ‘English Indices of Deprivation’, published by the Office for National Statistics. The report was an attempt to create a baseline against which progress could be measured.

In-work poverty is often equated with low pay, but the relationship between low pay and in-work poverty is far from straight-forward. Measures of low pay consider only the earnings of an individual worker and low pay is typically defined as less than two-thirds of median hourly earnings. In contrast, in-work poverty is based on an evaluation of the total circumstances of a working household.

Effective responses to in-work poverty might include increasing hourly earnings, hours of work, the number of workers in a household, or the support available for low-paid workers, but it might also include reforming the support available for larger families or even payments for non-employed household members. The problem requires us to take a close look at the nature of in-work poverty, its relationship to low pay, the extent to which state support succeeds in reducing it, and how people move in and out of in-work poverty. It is important to understand that low pay and in-work poverty are different.

Social Welfare Benefits Investigation Committee (SWBIC)

The starting point for scrutiny of policy in this area must be the work of SWBIC. The Committee’s mandate, was to examine the workings of two parallel systems: the supplementary benefit system administered by the then Social Security Department and the rent rebate system administered by the then Housing Department and to bring forward proposals to the States of Deliberation for a unified, adequate and sustainable system of social welfare benefits.

Social security in Guernsey has multiple aims but principally it is about poverty reduction. It attempts to set the appropriate levels of benefits in light of the costs people face, the inevitable interfaces with tax and wage rates, and consequentially the maintenance of work incentives. This requires explicit value judgements about the responsibilities of state, the market and individuals in reducing poverty. It is also important to start by understanding the living standard that is delivered by the current system.

² <https://www.gov.gg/CHttpHandler.ashx?id=105802&p=0>

What we do know is that in the UK employment significantly reduces the risk of poverty, and the social security/benefits system has an important role to play in ensuring that it pays to work, thereby helping people provide economic security for themselves and their families. In Guernsey we have very high levels of employment compared to the UK. In the UK there is strong evidence that topping up the pay of working households on low incomes has an impact on poverty. It is effective because top-ups are targeted directly at households on low incomes. In Guernsey where such a high proportion of those who can work, do work, this type of benefit is arguably even more important in tackling poverty.

Poverty is about meeting needs, so the value of benefits needs to keep pace with the cost of essentials. This is a point emphasised in the SWBIC proposals, which are adamant that the levels of benefit must be reviewed if the cost of essentials starts to rise. Recognising that low-income households spend a larger proportion of their budgets on essential items means that the standard RPI 'basket of goods' is rarely appropriate and that regular monitoring is essential to ensure the 'basket' accurately reflects the purchases of families on low incomes.

At the time they were made, the SWBIC proposals had an estimated cost of around £3m above the current expenditure for the supplementary benefit and rent rebate schemes (recently this figure has been recalculated to £4.4 million). The Committee was acutely aware, given the general revenue budget deficit, that the proposed additional costs would be a problem.

However, the Committee believed that the costs were nevertheless necessary from the social welfare perspective and the costs published in their report were in any case lower than might have been foreseen when the Committee was established and during its early work. The reason why the additional costs are constrained, and indeed lower than those stated in the two predecessor reports, was due to a review of benefit rates for all categories of recipient. While significant internal adjustments were proposed (broadly a reduction in current short-term rates and an increase in long-term rates), at aggregate level the proposed new rates moderated the increase in overall expenditure; the Committee also recommended continuation of the benefit limitation which applies to the supplementary benefit scheme. This limits the number of people, beyond those being currently assisted through supplementary benefit or rent rebate, who might newly become eligible for benefit. The benefit limitation, which is £600 per week (2015 rate), caps the income that an individual or family can receive through the combination of earnings and various benefits. The purpose of the benefit limitation, (which was known in the past as the 'wagestop'), is seen as two-fold. First, it helps to ensure that a person cannot arrange their circumstances such that they receive in benefit an income that is beyond their earning capacity. Second, the benefit limitation finds a balance between restricting the cost to the taxpayer and ensuring that the value of benefit granted is sufficient to meet the basic needs of most Islanders. It does include an element of flexibility for larger families.

The Committee's proposals distribute the estimated additional cost among low income individuals and families already currently within the scope of supplementary benefit or rent rebate assistance. At the same time the Committee proposed a significant redistribution of the £35m (2015 figure) already paid to these individuals and families. Under the proposals for a unified benefit system some claimants' benefits would increase, while others would see their benefits decrease. In cases where benefits are to decrease substantially a 3 year transition period will be instigated.

In common with the two reports that preceded it, SWBIC was convinced that the States needed to merge the two social welfare benefit systems, supplementary benefit and rent rebate, into one. Bringing the two systems together substantially shifts the balance of the supplementary benefit scheme from an 'outside-of-work' benefit to an 'in-work' benefit. This will occur as working families who live in social housing and currently claim a rent rebate, but not supplementary benefit, will need to claim supplementary benefit in future as their rent rebate is withdrawn. The Committee, using Loughborough University's 'basket of goods' methodology (although substantially adapted to a Guernsey model), arrived at a set of short-term and long-term benefit rates which it recommended to the States.

At this time the SWBIC proposals have not been implemented due to ongoing financial constraints. The Committee *for* Employment & Social Security have committed to implementing the proposals from mid 2018 and this is reiterated in the relevant section of the Policy & Resource Plan. Funding to support the implementation during 2018 is included in the proposed budget.

The Panel support the principles that underpin the implementation of the SWBIC proposals. The SWBIC system addresses a number of the anomalies in the current system; for example, the situation where low income families in rented social housing, and with a rebated rent, are less affected by the benefit limitation than similar families renting in the private sector, where no rent rebate applies. Families, particularly larger families, in private rented accommodation who need the support of supplementary benefit are currently at considerable disadvantage compared with those in social housing. A unification of the two current systems should lead to a fairer allocation of resources for those in need of state assistance provided the value of the benefit keeps pace with the real cost of the 'basket of goods'.

The GHA pointed out in their evidence submission:

“We also believe a major problem for low income people is that the benefits system is extremely difficult to navigate their way through”.

3. Current Policy

"The way you see people is the way you treat them, and the way you treat them is what they become" Goethe

The policy on in-work poverty in Guernsey is largely controlled by three Government Committees. Firstly, the Committee *for* Employment & Social Security who have the responsibility for the benefit system; secondly, the Committee *for* Economic Development who have responsibility for economic development; and thirdly, the Policy & Resources Committee Policy who have an overarching responsibility for coordinating social policy and funding economic development. As with many aspects of the Island's government policy this shared responsibility necessitates the Committees work together effectively across the major policy areas that impact on in-work poverty.

At a macro level this is now done via the Policy & Resources Plan. However, the key areas that impact on in-work poverty, which are discussed later in this section, have developed by a combination of policies, often derived from initiatives in the UK and elsewhere. It can also be argued that some of the other areas that impact on in-work poverty, such as the level of fees and charges, the cost of access to certain medical services and childcare have been driven by wider economic pressures.

In the leaflet, 'Getting our Priorities Right', produced as part of the Policy & Resource Plan process, one of the aims is 'to monitor, understand and reduce poverty & income inequality in Guernsey'. Hopefully this aim will result in a fully aligned government policy to effectively address the problem of in-work poverty.

4. The Minimum Wage

"Poverty is the parent of revolution and crime" Aristotle

The Minimum Wage (Guernsey) Law, 2009 was enacted on 1 October 2010. From this date all qualifying workers have had a statutory right to be paid not less than the rate approved by the States. Under Guernsey law, workers are entitled to be paid a minimum wage. From 1st January 2017 the Adult Rate (for those aged 18 and over) is £7.20 per hour and the Young Persons' Rate (16 and 17 years old) is £6.50 per hour. In recognition of the extent of board and lodging arrangements in the tourist and hotel sector, a figure (a maximum) can be 'offset' for accommodation, or accommodation and food provided by an employer. The 'offsets' allow a notional amount to count towards minimum wage pay. Where accommodation only is provided the maximum offset is £66 per week (£64) and where accommodation and food is provided the maximum offset is rate £95 per week.

A change in the minimum wage is likely to have a range of economic impacts, from a direct effect on employees and employers through implications regarding number of hours worked, employment and wage levels, and on the broader economy through changes to wage costs and consequential prices of goods and services.

Raising the minimum wage would have the direct impact of increasing wages for a significant number of low-paid employees, which could in turn potentially reduce poverty, improve welfare, reduce the cost to the States of paying in-work top-up benefits and increase spending in the economy. At the same time, raising the minimum wage could impose higher costs on businesses, which could ultimately lead to negative impacts on employment, and higher inflation, as businesses pass these costs on in the form of higher prices. The Committee for Economic Development stated:

“The Committee is conscious that there is a balance to be struck. While more money in the pocket of employees will find its way into the local economy, it is also mindful of the fact that employees in these sectors are likely to be sensitive to increases in the minimum wage, especially for those employing seasonal staff on short-term licenses, as it will be a key factor in the cost of doing business in Guernsey. Any increase in wages is likely to be passed on to the customer and this may ultimately affect the viability of businesses.”

To fully understand the impact of the proposed (£7.20 to £7.75) minimum wage increases, we would need to consider the specific features of Guernsey's economy. Important structural features include:

- The large number of people employed in high-value sectors and Guernsey's low levels of unemployment and high levels of economic activity. The unemployment rate in Guernsey was between 1 and 2% as at March 2017 compared with 4.3% in the UK.
- Employment in Guernsey is concentrated in a relatively small number of sectors with financial services, a sector highly exposed to international competition, being dominant and the sector least likely to be affected negatively by minimum wage changes. Given Guernsey's remote location, employment in the service sectors satisfies a predominantly

local demand and such businesses may find it easier to pass on additional costs than businesses serving the export market.

- Some sectors are subject to significant seasonal variations, with employment increasing in the summer and decreasing during the winter months. Labour constraints in Guernsey are different from elsewhere due to housing and migration controls, which are compounded by Guernsey's relative remoteness and physical size.

These factors taken together mean that it is not possible to simply transplant minimum wage policies from elsewhere.

To systematically assess the impact of the proposed minimum wage increase on the local economy, we would need to make assumptions about the behavioural responses of employees, firms, and consumers. This analysis would need to include an examination of the changed earnings distribution specifically, which employees would see an increase in their wages. Then we would need to look at the response of firms to higher labour costs? Would they increase prices, reduce labour, accept lower profits, or reduce other costs? What would be the impact of changes in disposable incomes? For example, some employees would receive higher wages, others might see a reduction in hours worked, bonuses may be reduced and unemployment in some sectors might increase. Consumer spending could be affected where consumers see a change in disposable incomes; how would they respond, in terms of spending and saving?

This level of analysis cannot form part of our current review but the evidence we collected in the consultation allows us to make some informed observations on the local impact of changing the minimum wage.

The consultation responses together with the data analysis undertaken as part of this review highlighted a number of interesting points. First, it is clear that economic factors beyond the Bailiwick's control, such as Brexit and currency changes are affecting recruitment and retention of staff. The comparable value of the local offering to certain types of staff has diminished recently due mainly to the fall in the value of sterling. This has led (based on the information we have been given) to some employers offering improved financial incentives to recruit workers from outside the Island. However, other employers in the same sectors have not experienced the same pressures due to their use of alternative recruitment methods such as engaging the family connections of their existing staff.

Minimum Wage Conclusions

At the outset of its investigations several members of the In-work Poverty Panel assumed that a significant increase in Guernsey's minimum wage would have to be central to any strategy to reduce in-work poverty in the Island. Despite a frustrating lack of sound data in this area by the end of the Panel's work it had become apparent that the situation was far from being so clear cut.

The data to identify how many workers in Guernsey are on the minimum wage, or where workers on the minimum wage are employed is not currently available. While tax receipts provide official records of earnings they are not linked to the number of hours worked and therefore offer no help

in calculating the hourly rates paid. To make up for this lack of available data Panel Members spoke to employers in many of the industries where there was a presumption of low pay levels. The picture that emerged was interesting.

In the hospitality sector there were indeed a significant number of people being paid either the minimum wage or just above it. Typically these were single people on short term contracts who came from outside the Island and tended to live in employer-provided accommodation. We were told that outside workers who stayed longer (more than 5 years) would normally, but not always, expect to progress within the industry to higher paid posts.

The evidence suggested that very few hospitality sector workers were seeking, or were in receipt of in-work benefits from the States.

The evidence also suggested that horticulture paid a significant number of its workers close to the minimum wage. Unlike the hospitality sector, horticulture workers are less likely to have 'offsets' applied for accommodation or meals provided by their employer. Employment in this sector has declined over the years and numbers are now relatively small compared to the hospitality sector, but as a percentage of those likely to be impacted by a significant rise in the minimum wage the sector remains significant. Our conclusion is that the majority of those likely to benefit from a significant uplift in the minimum wage were single non-islanders on short-term contracts. We also spoke to employers in the care sector where our research indicated that pay levels, though modest, were comparable with typical Guernsey wages, and are unlikely to be directly impacted by any rise in the minimum wage unless a very significant increase is introduced. This is important because increasing the cost of care further could have a severe financial impact on both the Government and individual families.

While the Panel considers that guest workers have the same rights as locals to receive a reasonable level of pay in return for their labour, an increase in the minimum wage, from which this group would be main beneficiaries, would have limited impact on in-work poverty in Guernsey. Despite their modest pay levels the personal/family situations of workers in the hospitality industry mean they may be less likely to experience in-work poverty when compared to those in better paid jobs who have children to support and/or significant housing costs. To be clear this conclusion is based on evidence collected and no attempt has been made to validate these findings by empirical research.

So what are our recommendations for Guernsey's minimum wage?

In the UK the present Government has a stated policy of increasing the minimum wage to £9.20 within very few years and the main opposition party recommends an increase to attain £10.00 per hour. In Jersey a smaller but significant increase based on a percentage of mean wages has been approved in principle. Those industries which pay on or close to the minimum wage may presently attract few local workers with significant accommodation costs to meet or children to support, but in different economic circumstances locals may wish to access these jobs but may be prevented by the low pay levels. Indeed this could be happening now.

It therefore seems unsustainable that in Guernsey, where living costs are higher than in many parts of the UK, our minimum wage remains significantly lower.

However, our research argues for a cautious approach because any large rise in the minimum wage could make industries such as tourism and horticulture, which compete internationally (*and are disproportionately dependent on imported labour*), significantly less competitive.

There is then the potential for an resultant reduction in the tourism sector which would impact adversely on other areas of Island life. In addition, it could have an inflationary effect in respect of both goods and, more significantly, services. Some contributors also argued that pushing up employers' costs could lead to job reductions.

We cannot comment definitively in the absence of much of the relevant data but we believe that any significant increase in the minimum wage, desirable though it may be, is unlikely to have a substantial impact on in-work poverty in Guernsey. This is because most local workers who are in poverty are typically paid modestly but at a level above the minimum wage. It is their high cost base arising from family dependents, accommodation and other factors which create the need for in-work benefits.

This is one reason why the concept of the 'living wage' is so complex. It suggests there is an identifiable wage level at which people can support themselves and their families without the need for benefits. However, our initial conclusions would suggest this is difficult to estimate because individual circumstances are disparate and a person's housing costs can completely distort any attempt to identify a universal wage level at which additional support from the States is no longer necessary. So what then is a minimum wage? It can be suggested it is there to indicate a base level below which market forces cannot be allowed to push wages. It is there to avoid exploitation and to maintain human dignity. We therefore conclude based on albeit limited evidence that a significant increase in the minimum wage to, say, £9 or £10 would have a limited impact on local Islanders experiencing in-work poverty.

It is clear, employers in lower paid industries do recognize that the planned 'big' increases in the UK's minimum wage are likely to be mirrored, to some extent, in Guernsey. With that in mind they would prefer to know where Guernsey's minimum wage is likely to be in several years' time and thereby have more time to plan accordingly.

The Panel recommend to the Committee *for* Employment and Social Security that they bring proposals to the States for any increase to the minimum wage planned over a three to five year timescale to allow employers a period of certainty.

5. Housing

“There is always more misery among the lower classes than there is humanity in the higher” Victor Hugo, *Les Misérables*

The recently released KPMG report on the local housing market in Guernsey provides a number of interesting perspectives though it does not directly address the issue of housing costs for those experiencing in-work poverty. The report does consider issues such as affordability for first time buyers, provision of elderly tenures, provision of key worker housing, Government support to the housing market and the ongoing monitoring of housing targets and key performance indicators. Whilst some of the analysis included in the report is useful when examining the housing needs of those experiencing in-work poverty, the lack of relevant recommendations on the requirements of this group is disappointing.

In 2017 a record 60% of British people in poverty live in a household where someone is in-work, with the risk of falling into financial hardship especially high for families in private rented housing. The 2017 study by Cardiff University³ states the risk of poverty for adults in-working families grew by a quarter over the past decade.

Housing costs are a central issue when considering in-work poverty in Guernsey and a key concern for local people on lower wages. Low-income householders cannot afford to buy a home because they cannot save the deposit and afford the other purchase costs even when they could afford the monthly mortgage repayments.

We estimate that around one thousand low-income earners will be living in employer-supplied accommodation with their meals provided. We do not know whether these earners behave in the same way as the average for the low-income group. For example, they may save a higher percentage of any increased salaries (e.g. for remittances), or spend more locally. Many of this cohort are not local residents and may look to send money ‘home’ to support family overseas.

The cost of accommodation is arguably the greatest single cause of in-work poverty in Guernsey; housing costs are for a large proportion of the population, by far their main household outgoing. Put simply, a modest household income with housing costs representing 30% of that income may allow that household to access the basic requirements of life. The same household income, coupled with housing costs of 40-50% may not.

This huge impact of housing costs is recognised in Guernsey’s benefit system and built in to the calculation for ‘requirement rates’. As a result the high cost of housing is probably also a significant contributing factor to the costs which the Committee for Employment and Social Security pay out annually in benefits.

The impact of housing costs on the ability of households to afford the other basics of life can be divided into three categories. The first group to consider are owner-occupiers who in Guernsey

³ https://www.cardiff.ac.uk/_data/assets/pdf_file/0009/758169/Hick-and-Lanau-In-work-poverty-in-the-UK.pdf

have to cope with high mortgage costs. Traditionally this 'pinch point' in their lives has tended to be relatively short lived as rising wages, career promotions and the erosion of the real value of their mortgage through inflation has resolved the problem within a relatively few years.

However, this is not always the case and for some an ill-advised mortgage has been a catalyst for long term financial problems and genuine poverty. There is also a danger that any return to higher interest rates coupled with modest wage growth could seriously impact those over extended on variable interest mortgages. Years of low-interest rates have seen high capital sums borrowed on the assumption that monthly repayments would be manageable. Taken together with the planned phasing out of mortgage tax relief this group could face a significant financial impact.

Traditionally, one way of achieving affordable home ownership for Islanders of relatively modest means, without depriving their families of other basics, was through the States' Loan Scheme [previously the Homes for Workers Loan Scheme]. These schemes worked by providing loans to first time buyers enabling the purchase of modest properties and varying the interest rate so they were never paying more than a set 25% of their total income. As the purchaser's wages rose relative to the level of their outstanding debt so did the level of interest charged on the loan so that they still paid the same percentage of their income. Eventually, as the interest rate rose, it became advantageous for the purchaser to swap to a commercial loan. At that point the purchaser repaid their States' Loan and the capital was recirculated to provide new loans under the scheme. The scheme was discontinued because it was felt the availability of affordable loans from the private sector had rendered it obsolete. This was of particularly the case when lenders were offering mortgages approaching 100% of equity.

It would not be easy to re-establish the previous scheme. When it was wound up the capital built up within the scheme over many decades was redeployed into the States' Strategic Housing Strategy, meaning any new scheme would require fresh capital. Therefore, barring a huge drop in property prices, it seems certain that the trend for more Islanders to rent their homes will continue. The issue is therefore how to make that arrangement affordable without creating household poverty. Any new States' 'help to buy' scheme which focused assistance purely on helping with the cost of deposits would also need to be capitalised. While the quantum of capital would be far less, so would the number of people who could be helped.

While the former States' Loan scheme specifically set out to assist those who could not afford commercial mortgages, at least in the early years, to own their own homes any deposit assistance scheme would specifically need to exclude such people. Rather it would have to be aimed solely at those who could clearly afford commercial mortgage repayments but struggled to amass the required deposit, while at the same time paying for rented accommodation.

Indeed, if such a deposit assistance scheme did help those who couldn't easily manage mortgage repayments then, through encouraging ill-advised lending, it may increase rather than reduce poverty. What is clear is that any such scheme, however beneficial to some Islanders, would be limited in its impact and would be highly unlikely to return the Island to the very high levels of

home ownership it experienced previously. Therefore, barring a further big drop in property prices or a change in lending policy the trend to private renting will continue.

The previous States' scheme would benefit many Islanders of modest means wishing to become home owners. The high cost of properties in Guernsey, the multiples of income required for mortgages, and the need for large deposits, all render home ownership through commercial borrowing well out of the reach for families who hitherto could have realistically aspired to home ownership. This is a significant factor in the decline in the percentage of Islanders who own their own home.

Guernsey has it within its means to reduce house prices on the local market. It can influence both supply through building house and changing planning laws and demand through population policy and changes to associated charges. However, it may not be politically acceptable from the perspective of existing homeowners to see their house values fall to bring them into line with wider affordability. Guernsey does have a number of people who are asset rich but income poor. Many of the people in this category are older Islanders who are often reluctant to incur the high costs associated with downsizing in Guernsey to release capital. This is an area that could be improved with intelligent government intervention.

The Guernsey Housing Association (GHA)

The recently released KPMG report on the local housing market in Guernsey does not directly address the issue of housing costs for those experiencing in-work poverty. Whilst this is disappointing the Panel accepts that this area was not explicitly stated in the terms of reference for the review. However, the Panel do believe that the time may be right to undertake a fundamental review of the role of the GHA. The Panel commends the role played in the last fifteen years by the GHA, it has assisted lower income people in accessing good quality, affordable accommodation but the question remains whether it should carry out a wider role in providing housing in Guernsey.

The GHA which was set up in 2002 is an independent not-for-profit company, governed by an unpaid Board. Part-funded and regulated by the States of Guernsey, the GHA works in partnership with the public sector to deliver social housing. The GHA offers rented housing using the same income criteria as the States; offers are made dependent on peoples' circumstances and availability of suitable accommodation.

The GHA offers partial ownership for those who cannot raise a deposit or obtain a full mortgage for a property in the private sector (subject to criteria). The GHA offers social rented housing and homes sold as partial ownership for lower income local people whose needs cannot be met in the private housing market, and extra care housing where there is a need for additional support. Since 2002 the GHA has provided almost 800 new homes for over 2,000 local people. By spring 2017, the GHA had 799 homes in management for rent and partial ownership for single people, couples, families, keyworkers, older people and those requiring some care and support. The GHA has five sites under construction with properties due to be completed from summer 2017 onwards and has 8 more sites programmed to be built on over the next three years producing 150 more new homes.

If the number of people waiting for social housing is dropping, one obvious response is to widen the criteria for such housing. There are certainly many Islanders who struggle with high housing costs who are not currently eligible for social housing and by widening the criteria some relative poverty could be eased.

However, those currently housed in GHA accommodation also struggle. The GHA stated:

“...one of the biggest concerns that we encounter daily are some low income working people struggling to keep their GHA tenancy going financially. Most of our working tenants who struggle with staying in our properties have financial problems, mostly due to loan company debts and credit card debts at very high interest rates...A further difficulty for our tenants, whether in work or not is that their family or work situation may often change (as they are more likely to be in less secure jobs and on variable hours) meaning their earnings can frequently vary and reduce which disrupts their finances, hence more chance of loan debt and the need to try to alter their Benefits which are often slow to catch up with income changes...This debt issue is what reduces people’s ability to keep a tenancy going, whether that be in affordable housing or the private sector. This debt pressure creates rent arrears and then the landlord has to take action.”

Such a review of eligibility criteria would obviously apply to those wishing to enter social housing for the first time but we would suggest it also applies to those who may be required to vacate it. For example, it would seem perverse if a social housing tenant was saving up for a deposit on a first time buyer’s property to then be expected to vacate their accommodation when they had achieved two thirds of the required deposit because their ‘savings were too high’.

Equally the Panel has been provided with evidence that indicates some social housing tenants are reluctant to increase their earnings, not because of loss of benefits or higher rents, but because it might jeopardise their social housing tenancy. While it would be perverse to accommodate the wealthy in social housing, some relaxation of the earnings/savings criteria could have a double benefit. It would encourage greater self-help and assist the wider economy by no longer discouraging tenants from increasing their incomes. The Panel is unclear what aim is achieved by the current policy.

Then there is the question regarding how many extra social housing units Guernsey needs. The Panel noted the information contained within the recently released KPMG report on the local housing market in Guernsey on this area. While this question is beyond the remit of the Panel, it is clear to us that there is a dichotomy attached to this figure.

On the one hand for Guernsey to constantly increase its housing stock while its population remains relatively stable would appear to be a recipe for over-provision and over-development. On the other hand it is clear that many more units of ‘social accommodation’ would assist greatly in easing in-work poverty. Housing costs are such a prime cause of ‘financial stretch’ in Guernsey that any meaningful attempt to tackle poverty simply must include action on housing.

On this basis it seems the best way forward is to now carry out a fundamental review of the role of the GHA, 15 years after it was first set up. There is no doubt that over those 15 years it has moved quickly to assist some of the poorest people in Guernsey with good quality, affordable

accommodation. That is laudable but the question remains whether it could carry out a far wider role in providing generally affordable housing to Guernsey's population.

The Panel are well aware that any such move is likely to meet with stiff resistance from some commercial developers/landlords but we believe it is worthy of consideration. Housing costs are simply too great a cause of poverty in Guernsey to exclude examination of ways to reduce their impact. We therefore recommend that the Policy & Resources Committee and the Committee for Employment and Social Security carry out a fundamental review of the role and remit of the GHA.

Private Rental Sector

This is, always has been, and probably always will be, an important part of housing provision in Guernsey. The problem remains that for those on modest incomes the cost of private rental typically takes up a very high percentage of their income and therefore does not allow them to afford the other essentials of life. That is why housing costs are included in any calculation of benefit rates. It is also worth noting that Guernsey currently has limited protection for the rights of tenants compared to the UK or Jersey.

The new benefits regime approved under SWBIC will, once introduced, provide equal assistance to those on low incomes in the private rental sector as to those in social housing. But this comes at a cost and if in future more Islanders on low incomes choose private-rented accommodation then that cost to the States will rise. Public opinion is important in this regard; experience in parts of the UK suggests that a subsidy on bricks and mortar (council housing) is seen as acceptable, but finding you are living next door to someone who has their very high private rent paid by the state in housing benefit can be more problematic. This tension will need to be addressed sensitively.

Social Housing

Social housing tenants on modest incomes are cushioned against high rents. The rent rebate scheme ensures they don't pay more than an affordable rent. As a result while the tenancy of Guernsey's social housing sector may be amongst the lowest income households in the Island that does not necessarily mean they are the most likely to experience poverty.

The SWBIC proposals will dilute the help given by the rent rebate scheme in some instances, in order to extend its protection to the private sector. Social housing tenants will still be relatively cushioned from high rents but this does not mean that they are safe from poverty. They are amongst the lowest income households in Guernsey and therefore are vulnerable to other causes of hardship.

What does seem certain is that in future if Guernsey wishes to prevent private ownership or private rental housing costs pushing households into poverty then more social housing will be required. Some people may continue to espouse the social cohesiveness brought by high levels of home ownership but barring big changes in either property prices or lending policies then the current trend towards more people needing to rent will continue.

Guernsey must respond to that trend. It already has started to do so and it is encouraging to learn that waiting lists for social housing have started to drop. There is no room for complacency. An adequate and growing provision of social housing in future is going to be one of the keys to limiting poverty in local households.

6. Fees & Charges

“It is a most miserable thing to feel ashamed of home” Charles Dickens, *Great Expectations*

Charges for Government Services

Over recent years, the States has introduced a range of user charges to replace funding from general revenue. In many cases these charges are not likely to impact those experiencing in-work poverty. Certain charges do have a direct impact, however; for example, the changes to the waste water charge which reduced the burden on general revenue but significantly increased the typical water bill. While income tax broadly relates to the ability to pay, user charges in general and water consumption, in particular, do not. As a result it can be argued that the financial burden of dealing with waste water has shifted to those on lower incomes.

The same can be said, but to a lesser extent, of the proposed new charges for solid waste disposal. While the correlation between the rateable value of people’s properties and their financial means may be less clear cut than with income tax, it does exist. Charges per bag may be desirable in the sense of influencing behaviour but they arguably break the link to the ability to pay. It is possible that the proposed changes to waste charging will impact disproportionately on those on the lowest incomes. Whilst the benefit system may address these additional charges for some people, many of those on lower incomes could be worse off.

The Panel is not proposing that any of the changes in the mechanisms for funding services that have been introduced in recent years are reversed. It does however counsel the States to exercise extreme caution before introducing any further such user charges. In particular, they should not be introduced without full consideration of their impact for Islanders on low incomes. It is neither appropriate nor true to dismiss these concerns with platitudes about this being an issue best addressed by the benefit system.

A related issue is the growing expectation by the States that its trading arms, both incorporated and unincorporated, should pay significant dividends or other returns into general revenue. It is claimed that this is simply a reasonable return on capital but it may require charges for basic services, such as water or electricity, to be increased.

As a result the income flowing into general revenue from these sources does not relate as strongly to the ability of Islanders to provide that cash as income from other forms of taxation and in particular income tax. This seems to sit uncomfortably with the States’ stated aim of raising most revenue from ‘those with the broadest shoulders’.

More relevantly to the Panel the potential for higher costs of basic commodities such as water and electricity could increase the financial problems of Islanders suffering in-work poverty.

Medical Costs

"Four spectres haunt the Poor - Old Age, Accident, Sickness and Unemployment"

David Lloyd George

The relatively high costs of accessing medical and para-medical cover (dental, ophthalmic, physiotherapy, chiropody fees, and prescription charges), is an area of concern that has been highlighted in the consultation process. Under the current benefit system, entitlement to a weekly supplementary benefit, however small, in most cases brings with it cover for medical and para-medical cover which extends to the beneficiary's partner and children.

The Committee for Health & Social Care informed the Panel:

"We are very concerned for people who are just above the eligibility threshold for supplementary benefit but are still on a low income and have no protection from paying for access to primary care. Public Health has evidence that parents will prioritise the health and wellbeing of their children above their own health needs... The Committee for Health & Social care's Policy and Recourse Plan expressly states that 'we will ensure that the funding of health and social care reflects the populations' needs, that resources are distributed equitably between services, and that the poorest are not priced out of good health'. We aim to do this through a review of the affordability and accessibility of primary healthcare and seek to ensure that low income is no barrier to good health...We see that any future model for health and social care needs to ensure that there is an equity of health outcomes and that means improving access to primary healthcare...Accordingly this is something we are looking at addressing as part of the development of the Target Operating Model that will be presented to the States of Deliberation at the end of this year."

Medical and para-medical cover is also available to people who fall just outside the limits for weekly supplementary benefit. Claimants whose income exceeds their requirements, according to the supplementary benefit calculation, by less than £50 per week are entitled to medical and para-medical cover. Claimants whose income exceeds their requirements, by between £50 and £100 per week may receive the medical and para-medical at the discretion of the Administrator having regard to the particular circumstances of the case.

The Constables of St Peter Port stated:

"The cost of medical care was a major problem to the low paid, who were often put off seeing a doctor and having to pay before the consultation. It was also thought the A&E charges had risen steeply and were exorbitant following the changeover with the contract. This was evidenced by the amount of Petty Debt cases taken out by surgeries"

The proposed unification of the system (the SWBIC proposals) will potentially bring (based on 2015 figures) an additional 930 households comprising 2,275 individuals into the scope of free medical and paramedical cover. However, not all will qualify for the cover. Those tenants whose income is sufficient to pay the full social housing rent without supplementary benefit assistance will not be covered for medical expenses, nor will the relatively small number of tenants with savings above the limits.

As those social housing tenants who are not currently claiming supplementary benefit do become beneficiaries when their rent rebate is withdrawn, they will become entitled to the 'medical and para-medical' benefits that are attached to supplementary benefit. The value of these services will partially, fully, or more than fully compensate for the withdrawal of the benefit of rent rebate.

The SWBIC proposals for weekly benefit rates recommended by the Committee *for* Employment & Social Security are based on the 'basket of goods' methodology and do not include an allowance for medical costs. The exclusion of such costs from the weekly benefit rates was on the understanding that medical and para-medical provision would remain available to all people covered by the supplementary benefit legislation. As these benefits are going to be available to more people in future the perceived injustice of a lack of a taper from paying these charges to having them paid will increase. Therefore, it would be sensible to investigate introducing a tapered system to avoid this cliff-edge eligibility for a range of free services.

The Cost of Primary Care

While accommodation and childcare costs, are undoubtedly the main causes of in-work poverty, the cost of visiting a General Practitioner (GP) in Guernsey undeniably is a major issue for a large section of the population. In a few cases where chronic conditions require multiple visits to the doctor, or for families already struggling, the cost of primary care could tip into poverty households who otherwise would be able to achieve a reasonable standard of living. Anecdotal evidence suggests that more frequently the problem lies with households already in relative poverty where an unexpected series of GP visits can cause real hardship.

This is unlikely to change post-SWBIC as that review looked at people in 'intolerable poverty' in Guernsey and recommended new benefit criteria to ensure their situations were ameliorated. In doing so the review looked at the cost of a basket of basic goods and services in the Island which it was felt everybody should be able to afford. However, because this exercise was setting rates for those who should receive supplementary benefit /income support the cost of primary care was not included in the basket because such beneficiaries qualify for free treatment.

At the other end of the income spectrum many Islanders are covered by private medical insurance or have it provided by their employers. It is those on modest incomes which are too high to qualify for benefits, or who chose not to apply who in some circumstances struggle with medical bills. Once again our evidence is largely anecdotal because little data is available but it was striking that no one we spoke to during our investigation, including the Committee *for* Health & Social Care and the Committee *for* Employment & Social Security demurred from the view that the cost of GP visits was a major problem for a number of Guernsey households.

This universal recognition of the problem is welcome but it is not matched by a consensus on the solution. At the time the new grant system was introduced it represented 50% of the fee for a GP or practice nurse consultation. It was intended to be the forerunner of a complete scheme where the majority of such costs would not fall on individual Islanders at the point of need. Instead the value of the grant system has dwindled and it now represents around 20% of the cost of a consultation.

The In-work Poverty Review Panel believes the current situation requires action because it has two significant impacts. First it takes cash from limited household incomes at exactly the time when those incomes may be further constrained by ill health impacting on earnings. However, perhaps the more worrying aspect is that it seems certain the high cost of primary care at point of use acts as a significant deterrent to many Islanders accessing medical care in a timely matter. Rather it induces a 'maybe it will just go away' approach to medical problems. As such it is likely to create a situation where conditions are not diagnosed at an early enough stage to produce positive outcomes.

We recommend that the States commit to address this issue by the end of this term. While it is for others to identify the correct solution, the Panel has four suggestions which it thinks are worthy of further consideration.

Firstly, a universal primary care insurance scheme similar to those already in place for both specialist care and long-term care. This would cover either the entire cost of consultations or, if it was felt a co-payment would be desirable, the majority of the cost. This would be a positive solution for those experiencing in-work poverty but it would mean even higher social security payments at a time when they are already rising to ensure the sustainability of existing schemes.

Secondly, a change in the current grant scheme to increase help where it was most needed. The drawbacks involve the cost of means testing and the tricky political decision over at what point on the income scale to withdraw the grants given the potential range of family circumstances.

Thirdly, decoupling the point at which benefits are paid and at which primary care is paid for by Social Security. It has been put to us that some employees receiving in-work benefits are reluctant to increase their incomes not so much because of the resultant loss of benefit but more because of the loss of free medical care. This argument about a disincentive to increase earnings would still apply whatever income level cut off is chosen and once again this might require additional means-testing.

Finally, extra competition or direct state provision in the primary care sector. It is significant that in Jersey a significant new entrant to this sector has brought down charges, including the introduction of free treatment for some patients. A similar impact might be created by a new entrant in Guernsey. If such a move is not forthcoming from the private sector then the States could consider setting up its own primary care practice and directly employing GPs.

7. Childcare

'The care of human life and happiness, and not their destruction, is the first and only object of good government' Thomas Jefferson

One of the issues that has emerged from the consultation exercise is that the lack of affordable childcare in Guernsey is a significant aggravating factor in respect of poverty in the Island, as well as limiting potential economic activity.

Life is not just about paid work and sometimes other priorities will take precedence, such as bringing up children and caring for disabled, sick or dying relatives. These are contributions that should be recognised and valued because they bring meaning and fulfilment, and save the state considerable sums in the cost of care. These periods out of the labour market put people at risk of poverty if they cannot rely on other resources and also lead to changes in the costs of meeting needs they may face as a result of having children.

The central point in relation to in-work poverty is that the difficulty in accessing affordable childcare often limits the number of hours which one partner within a family, or a single parent, will work thus lowering their household income. While the net gain by working and paying commercial rates for childcare is significant for those in higher paid jobs, it is marginal for those in low paid jobs.

Therefore, the contention is that greater provision of affordable childcare would encourage more people to work for longer in lower-paid occupations thus reducing poverty and boosting economic activity. A possible approach might be targeted assistance with childcare for those families which need it most.

Looking briefly at the two alleged negative impacts, it is beyond doubt that the best way out of in-work poverty is for those concerned, usually families, to earn more. Therefore, anything which prevents this happening needs to be tackled. It may be that the lack of affordable childcare, or targeted assistance with childcare, is leading to benefits being paid when they could be avoided if the recipients could significantly gain by working more hours. The Panel believe that consideration should be given to offering additional nursery provision to families in receipt of benefits where additional work could be undertaken by family members.

While this is beyond the mandate of this Panel it seems clear that in an island with very low unemployment any block to people working additional hours is a limiting factor for the economy. It has been suggested to us that the lack of affordable childcare not only reduces economic activity by parents but also by many grandparents who either give up work or limit their hours of employment to help with childcare duties.

In addition, a lack of childcare support may inhibit the ability of Islanders to undertake academic or vocational training and this can further limit their opportunities. For some younger women with children this can effectively close the door to possible career progression and the chance escape intergenerational poverty. Those countries where low-cost high-quality childcare is widely available often have a high tax base and clearly this creates a strong relationship between the benefits to the

individual and the State. Guernsey would potentially benefit economically from such provision but the calculations would need to be undertaken to calculate the likely effects with the current low tax system.

According to the latest figures from the Chartered Institute of Personnel and Development, only 5% of businesses in the UK now offer childcare in the workplace. Anecdotally, this is almost exclusively made up of large employers because they have the money and space to allow for it. They include government departments, the Royal Mail, a variety of universities, Microsoft and Toyota. In the UK there are tax breaks for those companies that offer childcare facilities.

Accessible, affordable (subsidised/free) childcare can make a big difference; this is especially true for single parents who are much more likely to be unemployed, and for whom access to childcare is the biggest barrier to finding work. Evidence obtained from a recent UK Institute of Directors survey backs this up. It found over half of its members think that the cost of childcare hurts careers, particularly those of women.

The issue is potentially significant and, as Guernsey's demographic balance ages, anything which deters Islanders from working for longer, such as the need to take care of grandchildren, becomes a bigger problem. With this in mind we suggest that the Policy & Resources Committee co-ordinates a multi-departmental review of the issue affordable childcare under the social policy part of its mandate. The situation in which a family is in in-work poverty and has to be supported by benefits but where the opportunity for both parents to work would lift the family out of in-work poverty and resultant benefits is one which we should strive to avoid, even if there is a cost to the States of providing affordable childcare.

8. Taxation

'The seven deadly sins... food, clothing, firing, rent, taxes, respectability and children. Nothing can lift those seven millstones from Man's neck but money; and the spirit cannot soar until the millstones are lifted' George Bernard Shaw

Perhaps the biggest impact that the States, or any government, can have on the personal finances of their citizens is through tax policy. For those on lower incomes, in poverty, or at risk of poverty, relatively minor changes in their disposable income can have a profound impact on their ability to afford a decent lifestyle. With the States having a stated aim of raising in excess of £13 million a year extra in revenue over the next few years there is a clear risk that any measures taken, unless very carefully chosen, could aggravate both in-work poverty and poverty more generally.

Guernsey is unusual in having most of the States income generated by income tax.

The traditional way in which the States has sought to assist those on low incomes and shield them from unaffordable income tax bills has been through the provision of personal allowances. This is a very costly and untargeted way in which to try to help the less well off. Hitherto a £1,000 increase in the personal allowance would put an extra £200 in the pockets of all tax payers regardless of their incomes. This has now changed very slightly with the removal of allowances for those on very high incomes but it still provides equal assistance to the vast majority of islanders rich or poor.

It is striking that the personal allowance in Guernsey has failed to keep pace with its equivalent in the UK, while their basic rate of tax is now similar. This means that for some of those on lower incomes they now pay more income tax in Guernsey than they would if they lived in the UK. Of course income tax is only one part of the tax system and there is no inherent reason why Guernsey residents shouldn't pay higher taxes than UK residents, but it represents a stark reversal of the situation which existed previously. In Jersey the Government is proposing to raise the personal allowance to £14,500. By contrast those on higher income levels still pay significantly less income tax in Guernsey than they would in the UK.

In the recently proposed budget an increase in personal income tax allowances of 5% to £10,500 for a single person will, if agreed, assist those on lower incomes. However, the latest budget also confirms that households identified as below 60% of median income, the figure generally recognised as the indicator of living in poverty, which equates to 27% of all households locally, pay a total of approximately £15million (6%) of personal income taxes.

One way in which assistance could be focussed solely on those who need it most are by the use of 'additional personal allowances' only available to those on modest incomes. This approach was used previously in Guernsey but was discontinued in the 1980s.

This system would increase the income level at which Islanders started to pay income tax but at a much lower cost than simply increasing the universal [or near universal] personal allowance. A similar result could be achieved by starting to withdraw the basic personal allowance at a lower level of income.

However, both ideas would have two drawbacks. First, they would make the income tax system more complicated. Secondly, they would significantly impact some middle earners in the marginal tax zone who would feel they were paying a disproportionate amount of extra tax for each pound extra they earned. Such issues are unavoidable if any allowance is to be progressively withdrawn as you move up the income scale.

Despite the potential problems we recommend that the Policy & Resources Committee should consider such an approach because it will make assistance to those on lower incomes far more targeted and therefore more affordable.

When the local tax system was discussed with representatives of the Joseph Rowntree Foundation they were immediately struck by the absence of a provision similar to the 'Tax Credits' that are used in the UK. Increasingly this is an important element of UK provision to support people working on lower incomes. The Panel believes that it is important that this type of system is evaluated in Guernsey.

Consumption Taxes

It is widely recognised that consumption taxes tend to be regressive in nature. In other words they impact most on those on lower incomes. This doesn't mean that those on higher incomes don't pay more, they do because they consume more, but rather that they tend to pay a lower percentage of their income.

In some cases individuals can mitigate the impact of consumption taxes through lifestyle choices (for example the duties of alcohol and tobacco). However, this option isn't available with a general consumption taxes. Although the Panel is not aware of any proposal to introduce new consumption taxes they have been on the political agenda in recent years and therefore their possible impact is worth considering.

In some other countries the impact of a general sales tax, VAT or GST on the poorest citizens is mitigated by exempting certain categories of goods, such as food or children's clothes. The problem with this approach is that it adds a level of complexity which might prove too costly for a small community like Guernsey.

It is notable that when Jersey first introduced GST the idea of exemptions was considered but rejected in favour of a simple, flat rate, tax. Instead some of the cash raised through GST was used to enhance their benefit system. While this approach will probably have softened the impact of the GST on some Jersey citizens on lower incomes that success will almost certainly have been limited. In particular those of modest means but not in receipt of benefits will have been net losers.

If at any time in the future Guernsey feels the need to bring in a new consumption tax it is vital that a part of the package is a series of mitigation measures aimed at softening the impact on as many Islanders on low incomes as possible. Simply increasing tax allowances and/or benefits will not be sufficient.

Put simply those who are struggling now are, by definition, spending a high percentage of their incomes on current living expenses. So a universal GST on their expenditure is going to increase the proportion of their income paid in taxes far more than for a wealthier person with greater disposable income.

9. Social Security – Benefits and Contributions

“If you’re in the luckiest one per cent of humanity, you owe it to the rest of humanity to think about the other 99 per cent” Warren Buffett

Normally any review of in-work poverty in a community would have a strong focus on the benefit system. However, the States has recently carried out a root and branch review of the section of the benefit system [supplementary benefit or income support] which impacts most on in-work poverty.

The resulting proposals have been approved by the States but not yet implemented because of a lack of resources. Given these circumstances it would seem inappropriate to look again at the proposed, but not yet implemented, benefit system.

That said the Panel has a couple of relevant observations based on the consultation exercise. It welcomes the fact that the proposed benefits are based on reality rather than theory by relating any payments to a well-defined ‘basket of goods’ and services which any Guernsey household should be able to afford.

To maintain that realism two things need to happen, first the contents of that ‘basket of goods’ and services needs to be periodically reviewed to see if it still represents a minimum required standard of living in a changing society. Secondly, benefits need to be upgraded with reference to the changing cost of that ‘basket of goods’ and services and not wider indices such as the Retail Price Index.

The other area within remit of the Committee *for* Employment and Social Security to consider is contributions. These have increased recently and it has been indicated that they are likely to rise further⁴. Obviously such increases impact on all contributors and that impact is greatest on those at risk of poverty or already in poverty.

Such rises may be unavoidable but there is one feature of social security contributions which has a significant impact on the lowest earners. In relation to income tax no one pays until their income exceeds the personal allowance and then they pay 20% [barring other allowances] on the remainder of their income. By contrast, with social security contributions Islanders don’t need to pay until their earnings reach a ‘lower earnings limit’, but then they pay contributions on all of their earnings including the portion of their income below that limit.

This approach creates a cliff edge which is particularly harsh for those on very low incomes which are above the lower earnings limit. Such an approach appears surprising for a Committee where the avoidance of poverty is a key part of its mandate. Accordingly we recommend the Committee *for* Employment and Social Security review this system. At the very least we would expect the requirement to pay contributions on all earnings including the portion of income below the limit be reconsidered; at the point at which contributions are payable the marginal rate on an extra pound

⁴ <https://www.gov.gg/article/157403/Increase-in-Social-Security-Contribution-Rates-from-January-2017>

earned is very high. The current system could in certain circumstances lead to the creation of a 'black economy' based on cash in hand payments which would clearly be undesirable.

10. Interim Conclusions and Recommendations

“That some achieve great success, is proof to all that others can achieve it as well”

Abraham Lincoln

The rise of in-work poverty could be tackled through a number of policy initiatives. These include greater provision of free and affordable childcare to enable both adults in a household to work; improved use of in-work benefits, action to increase access to the social housing sector, control of the cost of government services such as medical care, sensible changes to the minimum wage and taxation policies aimed at reducing inequality. In addition, more reliable data has to be collected and future policy should address the current system’s lack of a tapered transition from a dependence on in-work benefits to full self-reliance.

Put In-work Poverty on the Policy Agenda

In Guernsey significant numbers of people experience in-work poverty. Yet much public discussion tends to focus on low pay rather than in-work poverty, or treats the two as synonymous. There is a need for a more explicit focus on in-work poverty in order to better: understand the nature of the problem; evaluate the effectiveness of proposed solutions; and, ultimately, tackle it successfully. This requires a focus on income adequacy for working households and not just on the earnings of individual workers which, while obviously important, may be only one component of a household’s total income. It also requires a pause in the trend of replacing cash from general revenue with fees and charges to pay for public services which, by not relating to the ability to pay, only aggravate in-work poverty.

Support for Parents who wish to take up (additional) Employment

In the UK the Joseph Rowntree Foundation found that as many as one quarter of individuals in workless households who find employment only do so to then join the category of those in in-work poverty. Households with children are disproportionately represented amongst this group, with lone parents in particular over-represented. A lack of affordable childcare is holding back households on low incomes by limiting their earning capacity. It is also holding back Guernsey’s economy by limiting the workforce. The recent expansion of free pre-school education to 15 hours for 3 and 4 year olds will make a difference but more is still needed. Providing affordable childcare would be a win-win and the Policy & Resources Committee should use their co-ordinating role to ensure one or more of the Principal Committee[s] takes the lead on this matter.

Yet, childcare remains a significant barrier to employment for many local families, and it is no surprise that families with children are represented amongst those who struggle to exit poverty as they enter work. Supporting families’ work-life balance has to be central to government policy and additional support that enables parents to balance work and family life, for those who wish to return to work, is required.

Take Action to Tackle High Housing Costs

Housing costs are one of the biggest causes of in-work poverty in Guernsey and the States need to take a more interventionist approach to ensure no household needs to pay an excessive proportion of its income in order to secure adequate accommodation. This may involve redefining what is meant by social housing in the Guernsey context and developing the work in this area undertaken by the recent KPMG review of the local housing market. Significantly greater clarity is needed on the target numbers of houses that should be built each year, with a focus on ensuring that a suitable proportion of these are affordable homes.

An increasing reliance on the private rented sector, with the high housing costs that that often implies, will eat up many of the gains of any increased minimum wage. Without a more active housing policy to bring housing costs down, politicians will find themselves needing to do more (e.g. spend more on the housing element of the benefits system) just to stand still in terms of poverty rates. The worry is that rising housing costs will push up rates of in-work poverty rates further still and add to the pressures on the tax payer.

Charges for Government Services

The States has moved towards user charges to replace funding from general revenue. While income tax broadly relates to the ability to pay, user charges in general and water consumption, in particular, do not. The financial burden of dealing with, for example, waste water has therefore shifted to those on lower incomes. The same is potentially true for the proposed new charges for household waste disposal. Charges per bag may be influence behaviour but they also break the link to the ability to pay. The proposed changes to waste charging could disproportionately affect those on the lowest incomes.

The Panel is not proposing the changes that have been introduced in recent years are reversed. However, we do counsel caution before introducing any further user charges. They should not be introduced without an impact assessment for Islanders on low incomes. Leaving the affects to be dealt with by the benefit system will only exacerbate in-work poverty and undermine work incentives.

The expectation that the States' trading arms should pay significant returns into general revenue means charges for water and electricity may increase. As well potentially adding to the financial problems of Islanders suffering in-work poverty, this approach sits uncomfortably with the States' stated aim of raising most revenue from 'those with the broadest shoulders'.

Take Action to Reduce Medical Costs

It seems to be universally accepted that the cost of Primary Care is a significant problem in Guernsey but ideas on how to tackle are limited. The Panel has four suggestions which it thinks are worthy of further consideration. Firstly, a universal primary care insurance scheme similar to those already in place for both specialist care and long term care. Secondly, a change in the current grant scheme to increase help where it was most needed. Thirdly, decoupling the point at which benefits are paid and at which primary care is paid for by social security and finally, extra competition or direct state provision in the primary care sector. Our fourth and overarching recommendation, however, is that the Committees *for* Health & Social Care and Employment & Social Security and the social policy function of the Policy & Resources Committee accept that medical costs are an urgent problem and work together to bring forward recommendations to tackle it by the end of this political term.

Collect Data to Allow Informed Decision Making

One of the key themes of the investigation into this area is a frustrating lack of sound data upon which to base decisions. It was surprising to find that it is not currently possible to know how many workers in Guernsey are on the minimum wage, or where workers on the minimum wage are employed. While tax receipts provide official records of earnings they are not linked to the number of hours worked and therefore offer no help in calculating the hourly rates paid. No Government Committee collects definitive information on the minimum wage. Therefore, it is difficult to model the effect of any proposed rise other than in outline terms. In addition we do not know how many people on the minimum wage are in receipt of associated benefits such as board and lodgings. It is also difficult to link the 'top-up' payments made to individuals to specific areas of employment. For example, we do not know how many public sector employees are receiving in-work benefits. But just because we cannot measure it does not mean we can walk away from the problem, or wait until the data is available; we believe there is sufficient evidence to persuade us of the urgent need to address the factors mentioned above which are undermining a basic prerequisite that work should pay.

Social Security: Benefits and Contributions

The States has recently carried out a review of supplementary benefit or income support and it would seem inappropriate for us to look again at the proposed, but not yet implemented, benefit system. The Panel has therefore restricted itself to a couple of relevant observations based on the consultation exercise.

First, the contents of the 'basket of goods' and services on which benefit levels are based needs to be periodically reviewed to see if it still represents a minimum required standard of living in a

changing society. Benefits then need to be upgraded with reference to the changing cost of that specific 'basket of goods' and services.

Secondly, there is one feature of social security contributions which has a significant impact on the lowest earners. No one pays income tax until their income exceeds the personal allowance and then they pay 20% on the remainder of their income. By contrast, social security contributions are not paid until earnings reach a 'lower earnings limit', but then contributions are paid on all earnings, including the portion of income below that limit. This creates a cliff edge which is particularly harsh for those on low incomes which are above the lower earnings limit. Accordingly we recommend the Committee *for* Employment and Social Security review this system. At the very least we would expect the requirement to pay contributions on all earnings including the portion of income below the limit be reconsidered; at the point at which contributions are payable the marginal rate on an extra pound earned is very high. The current system could potentially foster a black economy.

Minimum Wage

Most local workers who are in poverty are typically paid modestly but at a level above the minimum wage. It is the high costs arising from family dependents, accommodation and other factors which create the need for in-work benefits. A minimum wage suggests a wage level at which people can support themselves and their families without the need for benefits. However, housing costs can distort any attempt to identify a wage level at which additional support from the States is no longer necessary. Rather than being the answer to Guernsey's in-work poverty problem, we suggest that the function of a minimum wage is largely to indicate a base level below which market forces cannot be allowed to push wages. It is there to avoid exploitation and to maintain human dignity.

Nevertheless, given the existence of a minimum wage, we consider it unrealistic for Guernsey's minimum to lag behind that in the UK when our cost of living is arguably higher. Therefore, there will almost certainly need to be a significant increase in Guernsey's minimum wage over the next few years, to mirror planned rises in the UK. This process should be planned in advance over a 3-5 year timescale to allow employers to plan and adapt.

Taxation

The traditional way in which the States has sought to assist those on low incomes has been through the provision of personal allowances, but this is a costly and untargeted approach. One way in which assistance could be focussed on those who need it most is by the use of 'additional personal allowances' only available to those on modest incomes. This would increase the income level at which Islanders started to pay income tax but at a lower cost than simply increasing the universal personal allowance. A similar result could be achieved by a tapered withdrawal of the basic personal allowance at a lower level of income.

Both ideas have their drawbacks, increased complexity and higher marginal tax rates at certain income levels. This becomes unavoidable if an allowance is progressively withdrawn as a taxpayer moves up the income scale. Despite the potential problems we recommend that the Policy & Resources Committee should consider such an approach because it will make assistance to those on lower incomes far more targeted and therefore more affordable.

The Panel noted the absence of a provision similar to the UK's 'Tax Credits' as this is an increasingly important element of UK provision to support people working on lower incomes. The Panel believes that it is important that the benefits of this type of system is evaluated in Guernsey.

Consumption taxes tend to be regressive in nature. Exempting certain categories of goods, such as food or children's clothes helps mitigate the regressive impact but adds a level of complexity which might prove costly. However, if Guernsey feels the need for a consumption tax it must be accompanied by mitigation measures for Islanders on low incomes, simply increasing tax allowances and/or benefits will not be sufficient.

'Them and Us' – The Attitude

A notable feature of the feelings expressed by a proportion of the respondents is the perceived gap between the rich and the poor in Guernsey. A recurrent theme in the evidence is the description of a culture of 'them and us', that social division is not limited to disparities in financial status but also relates to disparities in power and influence. This perception that Guernsey is a patrician community, with the great and the good deciding how the 'poor and feckless' are treated must be addressed and trust has to be re-established.

Appendix 1 – Terms of Reference

REVIEW OF IN-WORK POVERTY TERMS OF REFERENCE

Overview

The Scrutiny Management Committee (the Committee) will review the current policies and strategies of the States of Guernsey relating to ‘In-Work Poverty’ and the effectiveness of their implementation; this will include issues related, but not limited, to the minimum wage, housing, access to healthcare, and supplementary-benefits.

Background

In 2003, the States of Guernsey considered a policy letter⁵ for an ‘anti-poverty strategy’ which was advised by research from the Townsend Centre, University of Bristol. This strategy identified a number of areas for action, namely Benefit & Tax Measures, Education & Employment Services, Services for Older People & People with Disabilities, Crime Reduction Initiatives, Fiscal & Legislative Measures, and Housing under the (then) Corporate Housing Programme.

In the subsequently years, further policy letters have been considered within the States of Guernsey that include 1) The Minimum Wage (2007); 2) The Living Wage (2015), 4) Measuring Poverty & Income Inequality (2016) and, 5) Comprehensive Social Welfare Benefits Model⁶ (2016).

The Committee believes that an area of this importance is an appropriate topic for an in-depth review.

Review Scope

The Committee will consider the following areas as part of its review:

1. The adequacy of Guernsey’s minimum wage;
2. The impact of Guernsey’s taxation and Social Security System on low income households;
3. The current and future provision of In-Work benefits;
4. The issues related to access to affordable healthcare provision;
5. The issues related to access to affordable housing; and
6. The impact of other States’ charges on low income households.

Review Methodology

⁵ Following a Requête in March 1998

⁶ Otherwise known as SWBIC

The Committee will form a 'Review Panel' tasked to consider this area which will include representation from the States of Guernsey and those independent of the Government. Following an initial desktop exercise to assess the current available information, the Review Panel will launch a formal consultation process involving the relevant elements of Government, the public and other interested parties on this matter. It is currently envisaged that public hearings may be held to gain additional clarity regarding the evidence submitted.

Outcome

A balanced, evidence-based Scrutiny Management Committee Report, together with the submissions provided and transcripts of any public hearing(s) will be released into the public domain. The Report will consider the current policies in place, the effectiveness of the implementation of those policies, any gaps in the existing policy framework, and any recommendations on future action.

Appendix 2 – Scrutiny Management Committee Mandate

Constituted as a committee of the States with effect from the 1st of May 2016, by resolutions of the States, of the 9th of July 2015 and the 27th of November 2015.

Constitution

A President who shall be a member of the States: provided that the President of the Scrutiny Management Committee shall not be the President or a member of the Policy & Resources Committee or the President or a member of any of the six Principal Committees; and two members who shall be members of the States: provided that a member of the Scrutiny Management Committee shall not be the President or a member of the Policy & Resources Committee or the President or a member of more than one of the six Principal Committees; and two voting members who shall not be members of the States and who shall be elected by the States.

Duties & Powers

To lead and co-ordinate the scrutiny of committees of the States and those organisations which are in receipt of public funds, or which have been established by legislation, by reviewing and examining legislation, policies, services and the use of monies and other resources.

As far as is reasonably practicable, to appoint scrutiny panels (whether task and finish or standing panels) to carry out the work of reviewing and scrutinising committees' policies and services and their management of monies and other resources entrusted to them: provided that neither the President nor the members of the Policy & Resources Committee shall serve on such scrutiny panels and also provided that the Committee retains the power, if it so wishes, to carry out any review itself rather than through an appointed panel and also provided that the Committee shall at all times be responsible, and accountable to the States, for everything done by the Committee and any panels it has appointed, including the content of any report issued under its name.

To appoint a Legislation Review Panel to carry out the functions of legislative scrutiny in Article 66 of the Reform Law and also to recommend any changes to legislation from which it believes the Island may benefit: provided that the Committee shall at all times be responsible, and accountable to the States, for everything done by the Legislation Review Panel; and to constitute the Legislation Review Panel as follows: a President who shall be a member of the Scrutiny Management Committee and also a member of the States, a minimum of four other States' members, a minimum of two non-voting members who shall not be members of the States, and any number of additional and occasional non-voting members as the Scrutiny Management Committee sees fit for the purposes of review of any item of legislation or any other matter: provided that such additional and occasional non-voting members may or may not be members of the States and also provided that neither

the President nor the members of the Policy & Resources Committee shall serve on the Legislation Review Panel.

To scrutinise any matter contained in a policy letter which has been referred to the Committee by resolution of the States in accordance with any terms set out in the resolution and to submit to the States its findings thereon within a period of time set out in the resolution, which findings, together with the original matter, shall be laid before the States.

To promote and facilitate the participation in scrutiny of the widest possible range of States' members and persons independent of the States.

When determining the subject of its reviews and examinations, to pay particular attention to the performance of committees in contributing to States' objectives and policy plans and to matters which are of substantial importance or of significant public interest.

To recognise that the carrying out of scrutiny in public where possible is likely to contribute positively to public perceptions of scrutiny.

To submit a report to the States annually which reviews the work of the Committee and its panels over the previous 12 months and which sets out the Committee's objectives and, to the extent that it is possible while retaining a flexible and responsive approach to scrutiny, an indicative programme of work over the next 12 months.

To represent the work of scrutiny in the States, and publicly to promote and champion the value of scrutiny.

To advise the States if and when in its opinion circumstances justify the establishment of a Tribunal of Inquiry in accordance with the Tribunals of Inquiry (Evidence) (Guernsey) Law, 1949, as amended.

To exercise powers and perform duties conferred on the Committee by extant States' resolutions, including those resolutions or parts of resolutions which relate to matters for the time being within the mandate of the Scrutiny Management Committee and which conferred functions on the former Legislation Select Committee, Public Accounts Committee and Scrutiny Committee.

To fulfil the responsibilities set out in Annex One to the mandates of committees of the States.

Operational Functions

To deliver or oversee the delivery of, and to be accountable to the States for, any operational functions conferred on the Committee by way of extant legislation or resolutions of the States or which may be allocated to the Committee in Annex Two to the mandates of committees of the States.

Appendix 3 – Evidence Received

Written Evidence Received - First Call for Evidence, May/June 2017

The Policy & Resources Committee
The Committee *for* Home Affairs
The Committee *for* Health & Social Care
The Committee *for* Employment & Social Security
The Committee *for* Economic Development
States Trading Supervisory Board
Development & Planning Authority
St Saviours Constables
St Pierre du Bois Constables
Vale Constables
St Martins Constables
St Peter Port Constables
Forest Constables
Castel Douzaine
Torteval Douzaine
Guernsey Water
Guernsey Electricity Limited
Guernsey Housing Association
Guernsey Disability Alliance
Citizens Advice Bureau
Guernsey Community Foundation
Deputy J. Gollop
Mr Andrew Ogier
Ms Susan Cotterill
Mr Paul Wood

Meetings Held with Key Stake Holders & Other Agencies

Representative of the Employment Agency Sector

Representative of the Guernsey Chamber of Commerce

Representative of the Hotel Management Sector

Representative of the Joseph Rowntree Foundation

Officers of the Committee for Employment & Social Security

Representative of the Guernsey Community Foundation

Supplementary Information

Under Guernsey Law workers are entitled to be paid a minimum wage. Increase in minimum Wage Rates - effective From 1 January 2017. Following the acceptance by the States (at the November 2016 States' meeting) of proposals for new statutory minimum wages rates, the following rates apply from 1st January 2017 until further notice. Adult Rate (for those aged 18 and over) £7.20 per hour - Young Persons' Rate (16 and 17 years old) £6.50 per hour

The statutory maximum figure which can be 'offset' for Accommodation, or Accommodation and Food provided by an employer has also been increased. The 'offsets' allow a notional amount to count towards minimum wage pay. An employer may agree an amount that is above or below the 'offset' rate, however, if this in excess of the 'offset' rates this will reduce the pay for the purpose of the minimum wage calculation. Where Accommodation only is provided £66 per week (£64) - Where Accommodation and Food is provided £95 per week (£92)

Employers are advised to make any required changes to payroll systems to ensure compliance from the effective date of 1 January 2017. The Minimum Wage is the minimum pay per hour almost all workers are entitled to by law. A young person's rate is available to 16 and 17 year olds (except apprentices under 18) but all workers (including apprentices) aged 18 and over qualify for the Adult Rate. The rules do not differ for different size businesses or if the worker is working for a private individual.

Employees and Employers should note the changes to the Minimum Wage Rates with effect from 1 January 2017. The rates for 2015/16 and 2017 are detailed below:

Adult (18 years and over) minimum wage rate per hour (2016) £6.85, £7.20 (2017)

Young (16 and 17) person's minimum wage rate per hour (2016) £6.10, £6.50 (2017)

Maximum weekly offset for accommodation only (2016) £64.00, £66.00 (2017)

Maximum weekly offset for accommodation & food (2016) £92.00, £95.00 (2017)

What is the UK benefit cap?

The benefit cap sets a limit on the total amount in benefits that most working-age people can claim.

How much is the cap? The benefit cap will be reduced from 7 November 2016.

The total amount a couple or a single parent can receive in benefits will be:

£442.31 a week, or £1,916.67 per month within London.

£384.62 a week, or £1,666.67 per month outside London.

The total amount a single person who doesn't have children, or doesn't have children living with them can receive in benefits will be:

£296.35 a week, or £1,284.17 per month within London.

£257.69 a week, or £1,116.67 per month outside London.

The current cap is: £500 per week for single parents and couples.

£350 per week for single people who don't have children, or don't have children living with them.

The larger the family, the bigger the proportionate impact. The household cap is not tapered by number of children in the family, so a family of five will be capped at the same rate as a single parent family, if their benefits and housing benefit reach the cap.

The cap applies to people who are not in work – households are exempted from the cap if either of the following apply: The claimant or their partner are eligible for working tax credit. The claimant or their partner get universal credit, and their household income is more than £430 a month after tax and national insurance.

Appendix 4 - Key Documents Reviewed

- Billet D'Etat XXV– States Advisory & Finance Committee – Anti Poverty Strategy -26th November 2003 + Resolutions
- Billet D'Etat XXIII – Policy Council – Corporate Anti-Poverty Programme – Progress against the 2004 Action Plans and Development of the 2005 Actions Plans – 8th December 2004
- Billet D'Etat X – Policy Council – Corporate Anti-Poverty Programme – Monitoring & Update – 31st May 2006
- Billet D'Etat XIV– Policy Council – Corporate Anti-Poverty Programme – Monitoring & Update - 30th May 2007
- Billet D'Etat XXII– Commerce & Employment Department – Report on the Introduction of the Minimum Wage Legislation in Guernsey – October 2007
- Order in Council – The Minimum Wage(Guernsey) Law, 2009
- Billet D'Etat XX– The Minimum Wage (Guernsey)(Commencement) Ordinance, 2010 – 29th September 2010
- Billet D'Etat XIII– Commerce & Employment - Minimum Wage and Associated Rates– 27th July 2011
- Billet D'Etat XXX– Commerce & Employment - Amendments to Statutory Minimum Wage – 26th September 2012 + Hansard
- Guernsey Community Foundation – Poverty Measure – Benchmarking Study **
- Billet D'Etat XVI – Commerce & Employment - Amendments to Statutory Minimum Wage - 29th July 2014
- Billet D'Etat XX – Policy Council - The Co-ordination of Related Economic and Social Policy Projects - 24th September 2014 + Resolutions and Hansard
- Billet D'Etat III– Policy Council – Investigating Living Wage Statistic for Guernsey - 25th February 2015 + Resolutions and Hansard
- Billet D'Etat XIV – Commerce & Employment - Amendments to Statutory Minimum Wage - 29th July 2015
- Human Development Report- 2015 (United Nations Development Programme)
- Commerce & Employment – Employment Guide: Statutory Minimum Wage – 2015
- Billet D'Etat I– Policy Council – Measuring Relative Poverty and Income Inequality in Guernsey and Alderney - 26th January 2016 + Hansard
- Billet D'Etat VII– Social Welfare Benefits Investigation Committee – Comprehensive Social Welfare Benefits Model - 8th March 2016 + Resolutions
- Guernsey Annual Earnings Bulletin – Policy Council – April 2016
- National Audit Office – Ensuring employers comply with National Minimum Wage regulations – May 2016
- The National Minimum Wage and Living Wage – GOV.UK – 2016

- States of Jersey - Health & Social Security Scrutiny Panel – Living on Low Income- 2016
- States of Jersey – Living on Low income – Response of the Minister for social security – 2016
- Guernsey Quarterly Population, Employment and Earnings Bulletin – June 2016
- Guernsey Economic Overview – January 2017
- Committee *for* Employment & Social Security – Benefit & Contribution Rates for 2017
- Amendments to Statutory Minimum Wage – 2017
- States of Jersey – Review of Personal Tax (Stage 1) – Data Analysis – 2017
- States of Jersey – Review of Personal Tax and contributions – 2017
- Transforming Our World – the 2030 Agenda for Sustainable Development

Appendix 5 - In-Work Poverty Review Timeline

