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21<sup>st</sup> September 2018

Dear Sir

**Letter of Comment – Proposition No. P.2018/85 – Committee for Employment & Social Security – Non-Contributory Benefit Rates for 2019**

There is a minor error in the Policy Letter concerning the 2019 cost of the Income Support scheme as detailed in Table 8. The 2019 budget should be £41.3million instead of £41million with consequential changes to Table 9 and paragraph 7.7.

In this Letter of Comment, any references are based on the corrected 2019 cost of the scheme.

This is the first report prepared following the introduction of the Income Support scheme in July 2018 which has resulted in a net ongoing increase in expenditure of some £4.25million (compared to the Supplementary Benefit and Rent Rebate schemes it replaced). This is a significant investment in improving the welfare system and will undoubtedly have benefited many low-income households.

In considering the non-contributory benefit rate proposals, the Policy & Resources Committee is very conscious that there is an overall limit on States' revenue expenditure and, therefore, the inevitable consequence of any increase in the benefit expenditure, whether arising from rate rises; demand variations; or other policy changes, is a commensurate decrease in funding available for other critical service areas. It is fully accepted that the formula-led classification of these benefits means that there is no option but to fully fund any additional expenditure arising as a result of demand changes.

However, there is discretion in considering the level of benefit rises to be applied and in the introduction of policy changes including those which extend the scope of the benefit to encompass additional claimants or increase the benefit paid to existing claimants. It is the clear view of the Committee that these measures which result in non-demand led (ie policy led) increases in expenditure on benefits should be subject to the same level of scrutiny and prioritisation as any other request for additional budget.

Whilst the Medium Term Financial Plan recognised that additional budget should be made available to fund cost pressures including increased demand for existing services and service development, the current situation is that the requests total a multiple of the funding available and the States needs to give careful consideration to where these limited resources are focused to best achieve the States agreed objectives as set out in the Policy & Resource Plan.

Members note that it is proposed that non-contributory benefits are increased by 2.4% which is in line with the usual uprating practice together with additional increases to the Income Support rates to take account of the forthcoming household waste charges.

In respect of Severe Disability Benefit and Carers' Allowance, it is noted that the 2019 budget of £6.63million is a substantial real-terms' increase (£670,000 / 11.5%) on the 2018 budget as demand is increasing due to legislative changes; promotion of the benefit; and an ageing population.

In respect of Income Support, Members noted that based on eight weeks of experience of operation of the scheme, it has been estimated that the cost in 2019 (before allowance for the household waste charges [£485,000] and real-terms increase in the benefit limitation [£330,000]) will be approximately £950,000 lower than that previously modelled. However, this is largely offset by the projected reduction in rental income being £650,000 higher than modelled.

Therefore, the net additional cost of the Income Support scheme is £4.25million, approximately £300,000 lower than the £4.55million modelled and included in the February 2018 Policy Letter. As set out in this Policy Letter, the reduction in expenditure is due to a lower than expected number of claims (either through changes of circumstances or individuals choosing not to claim). There is, of course, the possibility that some of these who opted not to claim change their minds or additional claims are made as awareness increases of the Income Support scheme.

Members noted that the allowance for household waste charges in the requirement rates, rent allowance and benefit limitation will increase expenditure by £485,000 per annum.

The proposal for an increase in the benefit limitation to £750 per week is a real-terms' increase of approximately £60 per week (9%) and is estimated to cost an additional £330,000 per annum (after netting off the saving in the transition costs of introducing Income Support) for existing claimants. In addition, there will be a cost, which is unquantified, if this significant rise in the benefit limitation results in an increase in the number of claimants (ie from those who are currently not entitled to claim or choosing not to claim due to being entitled to relatively small amounts).

This Policy Letter clearly and comprehensively sets out that, although the introduction of Income Support has resulted in a more equitable system and improved the finances of 75% of those affected, it has disadvantaged medium to large sized families as a result of the benefit limitation.

The Policy & Resources Committee is wholly supportive of there being a States agreed policy on whether there should be a benefit limitation and, if so, at what household size it is set and how any increase is phased in and funded. The Committee would usually be of the view that it would be inappropriate to implement a further real-terms' increase in the benefit limitation in advance of the States having that debate. Notwithstanding, in light of the compelling case made by the Committee for Employment & Social Security and the costs

of Income Support being lower than modelled for 2019, the Policy & Resources Committee supports the proposal to increase the ongoing baseline cost of the Income Support scheme by raising the benefit limitation to £750 in 2019.


It is noted that the Committee *for* Employment & Social Security intends to submit a Policy Letter for consideration by March 2019 which will address the future of the benefit limitation, earnings disregard and personal allowances. By that time, there will be over six months' experience of the operation of the Income Support scheme and there will be a much clearer position regarding demand and expenditure. Members are firmly of the view that any proposal which would directly result in an increase in benefit expenditure in future years should seek an 'in principle' decision only so that the allocation of additional resources can be considered as part of the budget process when all other resource requests are assessed and prioritised.

Members also note that there is the intention to review the appropriateness of the current arrangements for winter fuel allowance and undertake a repricing exercise of the basket of goods used to set the Income Support rates. It is suggested that the opportunity is taken to consider these and other matters (including the integration of the school uniform allowance within requirement rates) within one Policy Letter in order to fully complete the introduction of Income Support and have a system that is as easy and efficient as possible to understand and administer, both for clients and staff. The Committee is also of the view that consideration should be given to the merits of introducing a policy that claimants must have a minimum period of residency before Income Support is paid.

There is also a wider policy consideration as to whether making top-up payments to claimants who are in full-time employment through the provision of Income Support which is funded from general taxation is the right mechanism to ensure that their income is at the level deemed necessary to meet their minimum needs and prevent poverty. There could be an argument that the minimum wage should be increased to reduce the occurrence of in-work poverty. It is recognised that this is a complex matter with inevitable advantages and disadvantages of any system adopted but there should be holistic consideration of the most appropriate policy measure.

The consideration of these proposals has strengthened the Committee's view that the States should be simultaneously considering and prioritising all States expenditure to enable the relative merits of all proposals that affect the general revenue position to be assessed. The non-contributory benefits expenditure is expected to be approximately £59million in 2019, a significant 15% of the total general revenue budget and the Committee's view is that any proposals to increase expenditure (beyond maintaining the real value of benefits) should not be deliberated on a piecemeal basis through a separate Policy Letter considered in advance of the budget debate but as part of a holistic approach to the States' entire expenditure and contained within the annual Budget Report.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Gavin St Pier', written over a circular stamp or seal.

**Deputy Gavin St Pier**  
President