



FALKLAND ISLANDS GOVERNMENT

WHITE PAPER ON WEALTH RELATED PAYMENTS

APRIL 2009

Introduction

1. The Green Paper on Wealth Related Payments was published in November last year and was discussed at the public meeting that month. Comments were invited from the general public and the consultation period was closed on 13 January 2009. The paper was intended to encourage debate on potential options for future charging for services or rationalisation of payments, which take account individuals' financial circumstances. The main objectives of introducing means testing are to:
 - a) reduce the burden of total costs;
 - b) limit demand;
 - c) contribute to general wealth distribution policies;
 - d) protect service provision to those most in need of those services.

Background

2. The government currently uses means testing for a number of social payments. However there are other allowances that are paid to everyone, irrespective of their financial circumstances (though there may be other qualifications such as residency). The following table lists the range of social payments currently in force:

Means Tested Payments

Welfare Allowances (for the unemployed)
Rent Rebates
Service Charge Rebates
Winter Fuel Allowance
Contribution Credits
Camp Pension Contributions
Legal Aid
Medical and Welfare Loans

Universal Payments

Child Allowance
Attendance Allowance
Christmas Bonus
Fostering allowance

3. Brief summaries of each of these is attached at appendix A (means tested payments) and appendix B (universal payments).

Consultation Responses

4. Unfortunately the response rate was disappointing; with only ten written responses received. It is difficult to draw firm conclusions from such limited data but a summary of the responses received is attached at appendix C. Three of the responses were in narrative form and answers to the specific consultation questions have therefore been derived.
5. Notwithstanding the small number of responses, the answers reflect to some extent the comments made at the public meeting and other comments made by various individuals since the paper was published. It would seem that:
 - a) Most people would prefer services to remain free (ie financed from taxation). This is not surprising given that this has been the case for most services for many years. However, it does not seem to be generally appreciated that a significant proportion of services are not paid for by taxation. In the past a major contribution has been made by fishing licence revenues (which are declining). Given this majority preference, it is perhaps surprising that the respondents were equally split on whether there is scope to implement means testing to the areas identified in the green paper.

- b) There are particularly strong feelings regarding education and health. However, given that these are seen as ‘vital to life’ services by most people, their concerns may relate to *opportunity* and *access* rather than specific financial considerations. This is perhaps supported by a general resistance to using means testing to ration demand.
- c) The responses on whether means testing should be applied to the current universal social payments were equally split. Child allowances were specifically mentioned by several people as an area for which it might be appropriate (with some suggesting that child allowance should also be taxable).
- d) There is support for centralisation and streamlining of administration, together with systems of assessment being simple rather than sophisticated.
- e) There is little support for means testing services beyond those areas identified in the report and only one respondent identified any new areas (some of which were already included in the original paper).
- f) Not surprisingly, those that expressed a preference stated that it would be better to introduce any changes progressively.

Options for Consideration

6 Means Tested Social Payments

6.1 The systems for assessment and payment are generally working well in this area. However there are 2 areas where inconsistencies are apparent:

- Thresholds – These vary depending on the specific payment in question and it would seem appropriate to standardise these wherever possible. The RPI basket of goods figure provided by the Policy Unit, as included in the Government revenue and Fiscal Policy Green Paper, would seem to be a sensible starting point, which can be readily updated in the future. At current prices this would be £15,500.
- Departmental assessment – Currently some payments are administered by the Treasury and others are administered by the Health and Social Services department. If means testing is extended to include contributions for health and education, the complexity will increase. It would make sense to aggregate them into one department but there will be capacity issues to address.

6.2 The threshold currently employed in several areas is £15,300. This figure originated from the Phelps Report in 1989 when the rent rebates scheme was implemented (£8,000); updated annually for inflation. This current threshold is not significantly different to the figure provided in respect of the RPI basket of goods above. It would therefore make little sense to amend the figure at this point (other than to uprate for inflation). In addition, the Welfare Benefits Review Group has been working for some time to try to standardise thresholds and assessment systems. Therefore, rather than take precipitate action it is suggested that it would make more sense for the Group to bring their work to a conclusion as soon as possible.

6.3 One area has been identified that needs immediate attention. This relates to pension contributions, which are treated differently for residents of Camp compared with residents of Stanley. Contributions are made by the Government for individuals who earn less than £180 per week. However, in Stanley claimants also have to meet at least one of the following additional criteria:

- Unable to work due to illness
- Unemployed (and actively seeking employment)

- In receipt of child allowance
- Looking after someone receiving attendance allowance
- Following a prescribed course of training

This division between Stanley and Camp residents does not seem equitable and therefore it is proposed that the two schemes are combined. Entitlement to future pension contributions would be based on the current criteria for Stanley residents.

7. Universal Social Payments

- 7.1 Attendance allowances and fostering allowances are related to the needs of the individuals being cared for. The Health department is heavily involved in the assessment of needs and medical evidence is usually involved. For these reasons no amendments are suggested at this stage. However, the amounts paid should be considered by the Welfare Benefits Review Group to make sure they are appropriate.
- 7.2 A Christmas bonus, equivalent to a weeks' pension, is paid to pensioners that reside in the Islands. It would be possible to cease this payment entirely, which would provide savings of £37,000 pa, but it is recognised that many pensioners will have come to rely on the Christmas bonus as part of their annual income. However, some pensioners have significant incomes and are not reliant solely on their state pension. The possibility of means testing was considered but it would probably be unduly complex to administer for a one-off annual payment. Instead, it is proposed that Christmas Bonus should in future be payable only to those who apply, so that individuals can assess whether they need the additional payment.
- 7.3 The most significant universal social payment is Child Allowance. The current year's budget for this amounts to £289,000. The eligibility criteria have been tightened in recent years and entitlement is now basically restricted to status and PRP holders. However, there are a significant number of recipients that have relatively high earnings. It has therefore been questioned whether payments are being made to some families that don't really need that support. Detailed research was carried out last year on family incomes and numbers of children in respect of which child allowances were payable. Based on that data, the following savings are estimated at various family earning threshold levels:

Annual Earnings Threshold £	Annual Saving £
£30,000	160,000
£35,000	125,000
£40,000	95,000
£50,000	45,000

- 7.4 It should also be noted that Child allowance has been held at £53.50 per month since 2003, due to an ongoing review of the system. If this figure had been inflated by the RPI over the last 6 years it would be equivalent to £70 per month today. There is therefore scope to use some of the above savings to move towards restoring the real value of the allowance paid. The following table shows the estimated additional cost of increasing the amount of child allowance from its current level:

Monthly Payment	Additional Annual cost
£	£
60	35,000
65	65,000
70	90,000

- 7.5 Taking into account the potential savings above, and the relative reduction in the value of the allowance over time, it is proposed that the child allowance should be increased over the next few years to restore its historic value but that the payment should be restricted, based on need. It is therefore proposed that the allowance be increased to £60 wef 1 July 2009 and by £5 a year thereafter until the value is restored to the 2003 level. The following restrictions are considered to be appropriate for future payment of child allowances:

Family income *	%age of Allowance payable (per Child)
Above £46,500 (3x RPI basket of goods)	Nil
Between £31,000 and £46,500 (2x to 3x RPI basket of goods)	50%
Below £31,000 (2x RPI basket of goods)	100%

* The above income thresholds would be adjusted in line with the RPI basket of goods each year

- 7.6 In theory it would be possible to 'phase out' child allowances over time. The most vulnerable families financially could be protected by including additional amounts in the thresholds for the various social payments (rent rebates, welfare allowances, etc). This is perhaps a longer term aspiration if a consolidated welfare system is introduced, such as the Living Allowance proposals previously discussed. In the short term this is unlikely and therefore it would be preferable to modify the current system.

8. Assessment Systems

- 8.1 The current assessment systems for pension contributions and rent, welfare and service charge allowances are relatively sophisticated. They involve verification of income of family members and, in some cases, their savings. These assessment systems work relatively well but it is recognised that there are some improvements and consolidations needed in respect of individual thresholds and allowances.
- 8.2 For the new proposals on child allowances and Christmas bonus a self-certification scheme (where individuals certify that their income is below the scheme threshold) would perhaps be more appropriate. These payments are not as fundamental to family finances as the detailed allowances above. The system would include an annual sample being checked (perhaps via tax records) and would incorporate significant penalties for wrongful certification. This assessment method should be capable of adoption for other new means tested payments or allowances.

9. Other Possibilities for Means Testing

- 9.1 The White Paper raised two particular areas as possible candidates for means testing:

- Education Allowances Student Grants
 Student Loans

- Medical and Dental Contributions to Flights & Accommodation
 Contributions to Treatment Costs
 Prescription Charges
 Dental Fees

9.2 Although few in number, the responses relating to the Wealth Related Payments Green Paper were against the means testing of education. However, it has previously been recognised that the education allowances granted to Falkland Islands students are generous compared with their counterparts, particularly in the UK. A separate White Paper is available containing specific proposals but, if means testing is to be introduced alongside student grants or loans, it would be preferable for the thresholds to be derived in a consistent manner to the other means testing thresholds. Consideration should also be given to potential centralisation if appropriate.

9.3 The general responses regarding health were also against means testing. However, there was some acceptance that it might be appropriate to make reasonable charges for prescriptions, dental work and doctors' consultations and perhaps contributions to flights from the better off. In order to preclude expensive administration, these systems would also need to be simple. In the case of prescriptions, dental work and consultations this could be achieved by cash payments (prior to receiving treatment). Flights are relatively less common and therefore could be invoiced in advance. In all cases there would need to be exceptions such as schoolchildren, pensioners and those in receipt of welfare payments or rent rebates. Significant discounts could also be given for annual or quarterly prepayment cards, as is the case in the UK.

Summary of Proposals

10 The proposals contained within this paper are summarised below:

- a) Wherever possible, the 'RPI basket of goods' as determined by the Policy Unit (currently £15,500) should be used as a basis for determining means tested thresholds (section 6.1 & 9.2).
- b) Consideration should be given to the aggregation of means tested benefits and payments into one department once comprehensive proposals have been developed (section 6.1)
- c) The Welfare Benefits Review Group should complete the review of thresholds and allowances as soon as possible (section 6.2).
- d) The two schemes for crediting pension contributions should be merged and future contributions based on the Stanley criteria. (section 6.3).
- e) The Welfare Benefits Review Group should review the level of attendance and fostering allowances to ensure they remain appropriate (section 7.1)
- f) The Christmas bonus should be paid only on receipt of an application from the recipient (section 7.2).
- g) Child allowances should be paid only to families who earn less than 3 times the RPI basket wef 1 July 2009, with a reduction of 50% for families earning between 2 and 3 times the RPI basket (section 7.5).
- h) The monthly amount of child allowance payable for each child should be increased to £60 wef 1 July 2009 and thereafter by £5 a year until the 2003 value is restored in real terms (section 7.5)
- i) Wherever possible a self-certification assessment system should be used for new means tested payments or allowances (section 8.1)

Means Tested Social Payments

Welfare Allowances

This scheme was originally designed to assist only the unemployed. It was revised in 2006 so that allowances could also be paid in special circumstances to those “whose expenditure exceeds their income”. There is a savings threshold of £4,850, above which a claim is disallowed. There is no sliding scale for earnings and the scheme is discretionary (though currently it is paid to all who qualify). It is payable at a weekly rate of £93 for a single adult and £137 for a married couple £137. Further amounts are payable if there are dependent children (£29 per week for the first and £18.50 for each subsequent dependent).

Rent Rebates

The rent rebate scheme is designed to assist people in Government Housing to meet their basic rent and service charge payments when they are receiving low incomes. There is a savings threshold of £15,300, above which a claim is disallowed. The rent rebate scheme is discretionary and benefit may be refused or withdrawn if Government considers the applicant is only in need of benefit through his/her own fault. The allowances are revised on 1 July each year to take account of rent and wage increases together with inflation in general. Rebate is calculated by taking the applicants total income away from allowances awarded based on their circumstances. If their income is less than their net allowances they are entitled to a 100% rebate of their rent. For every pound income exceeds the net allowances, the rebate is reduced by 65p.

Service Charge Rebates

This works in a similar way to the Rent Rebate scheme but relates to people in private housing on low incomes. The savings threshold is the same (£15,300) but, since there is no rent level on which the rebate can be based, a series of earnings limits are used to assess affordability and the resultant level of benefit. The limits take account of whether the claim is from a single person or a couple and the number of children in the family. Relief is granted at 100%, 50% or 25% depending on the earnings of the claimant. The scheme is discretionary and benefit may be refused or withdrawn if Government considers the applicant is only in need of benefit through his/her own fault.

Winter Fuel Allowance

This was introduced in 2001 and the calculation was originally based on a household using a gallon of kerosene a day to heat a property for three winter months). This was extended to four months in 2006 and the current allowance is £115 per month. The earnings limit applicable to this payment is the same as is used for rent rebates (£15,300).

Contribution Credits

These relate to the pension contributions made to secure a ‘state’ pension. Individuals who earn less than a specific earnings limit (currently £175 per week; increasing to £180 per week from 1st January 2009) effectively have their pension contributions paid by the Government. Contribution credits are also granted to students under certain circumstances.

Camp Pension Contributions

This scheme is aimed at assisting camp residents with their 'state' pension contributions. The earnings limit criteria is the same as Contribution Credits but there are no other eligibility criteria.

Legal Aid

This is awarded by the court and account is taken of the financial circumstances of the applicant, and the potential legal costs involved. The aim is to ensure that facilities are available to ensure that legal representation can be secured.

Medical & Welfare Loans

These are granted in a small number of cases when the applicant opts to have treatment for which a contribution is payable (for example, elective treatment) but has insufficient funds.

Universal Social Payments

Child Allowance

This has been held at £53.50 per month per child since 2003. Members have asked for the scheme to be reviewed, with particular reference to eligibility. There has been considerable discussion on this and it would seem reasonable to subsume the debate into this consultation process rather than considering it in isolation.

Attendance Allowance

This is paid to individuals who need 'care' assistance on a regular basis. It is paid at low, medium or high rates of £29.50, £56.50 or £85 per week respectively, following a needs-led assessment and medical evidence.

Christmas Bonus

This is a one-off annual payment; equivalent to one week's pension is paid to those pensioners in receipt of a retirement or ex-gratia pension who reside in the Falkland Islands.

Fostering Allowance

This is paid to foster parents to assist with the household expenses at a rate of £20.60 per day per child

Consultation Questions and Responses

1. Should the provision of free public services be concentrated on the most vulnerable members of society or be available to all?
2. Should assessment of wealth, benefits and allowances be streamlined to simplify procedures and facilitate processing?
3. Would you prefer to see services funded from general taxation or targeted service charges?
4. Should charges be used as a means of rationing provision of services?
5. Would you prefer simplicity (with the inherent associated disadvantages identified) to sophistication in administrative procedures?
6. Is there scope to extend the means testing principle in the provision of government services in the areas identified?
7. Are there any other services to which the means testing principles might be appropriate?
8. Should the administration of benefits and allowances be 'centralised' or remain the responsibility of individual departments?
9. Is there scope to extend the means testing principles to the universal social payments structure that currently exists?
10. Should any changes that are ultimately agreed be introduced progressively or immediately?

	A	B	C	D	E	F	G	H	I	J
1.	Free to all	Free to all	Free to all	Free to all	Free to all	Vulnerable	Free to all	Free to all	Free to all	Both * ⁴
2.	Yes	Yes	No	Yes	Yes	Yes	No	Yes	n/a	n/a
3.	Yes	Tax	Tax	Tax	Tax	Both	Tax	Both	Tax * ³	Both * ⁴
4.	No	Yes	No	Possibly * ²	No	Possibly	No	Yes	n/a	n/a
5.	Simplicity	Simplicity	n/a	Simplicity	Get a life!	Simplicity	Sophisticated	n/a	n/a	n/a
6.	No	Yes	No	Yes	n/a	Not sure	No	Yes	n/a	* ⁵
7.	No	* ¹	No	No	n/a	Not sure	No	Possibly	n/a	n/a
8.	Centralised	Centralised	Departmental	Either	Centralised	Centralised	Departmental	n/a	n/a	n/a
9.	No	Yes	No	Yes	n/a	Not sure	No	Yes	n/a	n/a
10.	Progressive	Progressive	n/a	Progressive	n/a	Progressive	n/a	n/a	n/a	n/a

*¹ – Rents, Refuse Collection, Home Helps, Meals on Wheels, Adult Training, Leisure Centre, Prescription Charges

*² – But not for Health or Education!

*³ – But don't increase tax!

*⁴ – Health and Education should remain free!

*⁵ – Child benefit should be taxable