



FALKLAND ISLANDS GOVERNMENT

**GREEN PAPER ON WEALTH RELATED
PAYMENTS**

DECEMBER 2008

Introduction

The Government has started a series of Green (Discussion) Papers to engage the public and businesses in budgeting for the future. A Green Paper on the overall budget was recently issued and this paper forms one of a number of follow up papers. The intention is to encourage debate on options to ease the financial situation and achieve the Medium Term Financial Plan (MTFP). It should be stressed that the aim is to look at *possibilities*. Many of the options outlined in the paper have not been the subject of debate by Councillors. They should not therefore be seen as intentions at this stage.

Background

In the modern world people expect modern services. We are fortunate in the Falklands that most public services are free (or at low cost). But as demands on services increase, and facilities and expectations expand, the costs of providing those services inevitably rise. This can be seen particularly in the ‘vital to life’ services of the Education and Health sectors, where standards rise and more costly options are offered. Unfortunately, affordability has become an issue because Government income is not rising at the same rate as spending.

Many Governments address this by targeting free (or low cost services) to the most vulnerable. This Green Paper considers how this might be done and where.

FIG already has a number of means tested systems. However, these have generally developed in piecemeal fashion as issues were recognised by successive Councils. There are different systems with different thresholds and allowances. Also, because schemes are operated in different departments, there is little ‘cross-departmental’ assessment of means and needs.

Apart from the welfare-related payments there are few links to a person’s ability to pay. Most services are provided free to everyone. This might be seen as fair because it provides equal opportunities. But most would argue that the level of personal finances in practice restricts equal opportunities. One of the main roles of Government is the protection of the less well off. But the provision of universal benefits and free services in some ways favours the rich. So Government is minded to seek additional contributions from the better off towards services. In the Falklands, half the families receiving child allowance have earnings of over £35,000 a year and 1 in 5 have earnings of over £50,000 a year. Higher earners should be able to afford to make a greater contribution than low earners.

An alternative to direct payment for services is a general increase in taxation. This has a wider scope than a ‘user pays’ principle but many would criticise a general tax increase for specific services only.

Objectives

The main objectives of means testing are:

- reduce the burden of total costs
- limit demand
- contribute to general wealth redistribution policies
- protect service provision to those most in need of those services.

A well-designed system balances equity and consistency. In an ideal world, we should aim to design one system for assessment. This would prevent the need for several application forms to be completed. It should also provide for any expansion (future-proofing).

In practice, we will need to make some compromises for an effective system for the Falkland Islands. Some of the most sophisticated legislation and computerised systems in the world are associated with means tested benefits. It is doubtful that such sophistication could be justified with the small client base in the Falklands. Therefore, we should probably add ‘simplicity’ to the balance mix above.

Current Policy

There are relatively few areas where FIG uses means testing and there is therefore scope to expand them. We recognise that there will be resistance from individuals that have benefitted from our generous provision but we could achieve significant savings. The following sections identify those payments that are made on a means tested basis and those that are provided without means testing.

Means Tested Social Payments

The following payments are made after assessing people’s income and/or savings:

	Budget 2008/09 £	Average claimants (illustrative)
Welfare Allowances	38,600 ¹	35
Rent Rebates	135,600	45
Service charge rebates	350	3
Winter Fuel Allowance	42,500	100
Contribution Credits	54,280	25
Camp Pension Contributions	100,000	80
Legal Aid	45,000	60
Medical Loans	1,200 ²	3

There are several departments involved in processing claims. Individual claimants often receive benefits from several schemes and many have to be separately claimed.

Universal Social Payments

There are a number of areas where payments are made to everyone, irrespective of income or savings (though there are other restrictions, such as being payable only to status or PRP holders). These areas include:

	Budget 2008/09 £	Average claimants (illustrative)
Child Allowance	289,000	450
Attendance Allowance	60,000 ¹	35
Christmas Bonus	37,000	275
Fostering Allowance	20,000 ¹	10
Aids & Adaptations	3,000	1

¹ Forms part of a £118,600 Welfare Benefits budget

² No individual budget, taken from with Medical Treatment Overseas budget.

Whenever changes are made there are winners and losers. This is particularly sensitive when it involves personal finances. If individual impacts of changes are significant it may be necessary to phase-in changes.

It is also important that the thresholds used to assess eligibility are kept up to date. If thresholds are linked to a particular earnings level, it is important that an annual uprating system is in place to maintain this link.

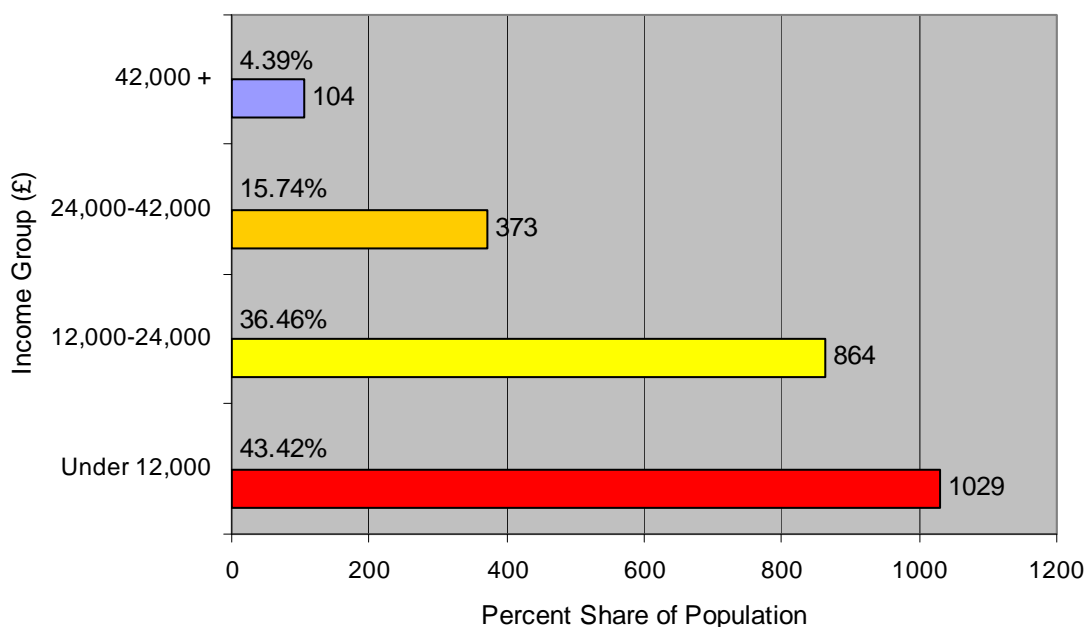
Impact on Society

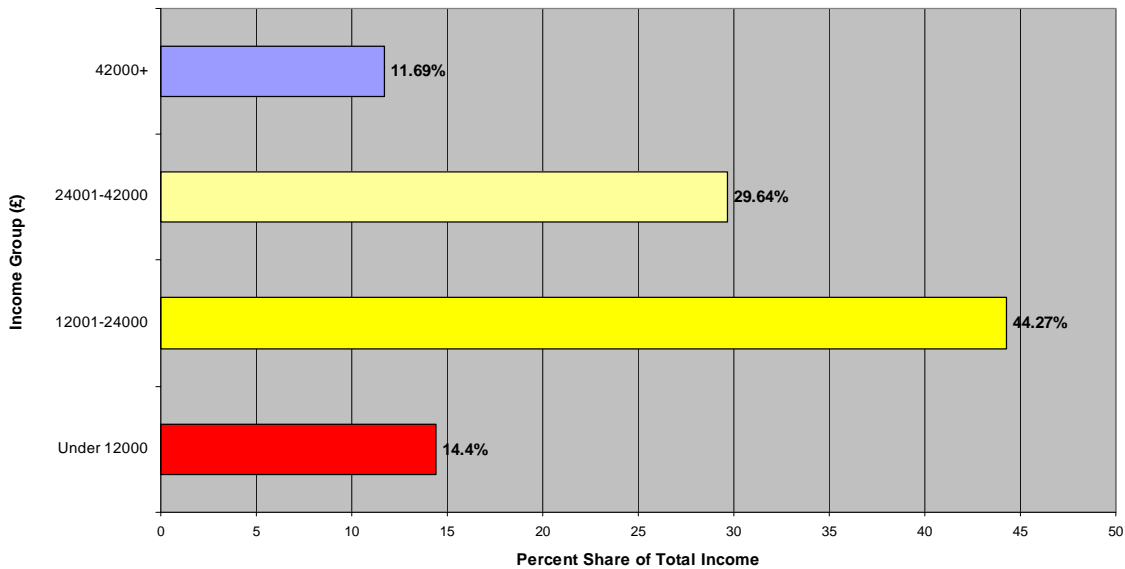
When considering changes we will need to ensure that opportunities are maintained. For example, if means testing is introduced on student grants, it should not prevent someone going to university. There may be financial consequences for the parents or the student but these should not be so great as to prevent participation. Similarly, if medical charges are introduced in some form, they should not jeopardise other government policies such as the 'Health of the Nation'. They may ration demand but should not prevent sick people seeking medical advice.

Impact on the Economy

It would also be counterproductive for changes to impact negatively on our economy overall. We will need to ensure that the financial consequences on individuals are not so negative that they are discouraged from education and training or, as a worst case, encouraged to leave the Islands. The changes should not trigger demands for increased salaries and the impact on recruitment from abroad should be minimised. It is also important to consider the impact on Camp residents to ensure that a balance is maintained with Stanley residents.

Income Distribution





The above charts that were put together from 2006 census data show that:

- Although 40% of people earn less than £12,000 a year, their total incomes amount to only 14% of the total earnings in the Islands
- The middle earners total income accounts for $\frac{3}{4}$ of total earnings.
- Only 4% of people earn over £42,000 a year but in total they earn almost as much as the low earning band

This means that the higher earners have a disproportionately large share of the national earnings cake. If we judge it in wealth terms, the universal system of benefits that FIG provides is generous to the middle and high earners rather than concentrating on the most vulnerable people.

Simplicity or Sophistication?

In a small community such as ours there are a relatively small number of people to whom means testing would need to be applied. Even so, there are a number of things that we will need to think about; some of which are specific to our local circumstances.

- Administrative costs
- Accuracy of data
- Self-certification of earnings
- Earnings/savings thresholds
- Poverty traps
- Variability of earnings
- Income or wealth?
- Self-employed/Camp residents

Conclusions

The existing systems for social payments (rent rebates, service charge rebates, etc) are working reasonably well. It might be possible to refine them but any savings would be relatively small. Means testing in Education could be introduced on a phased basis because there are students already undertaking courses. If this was done it would be several years before impacts are fully felt. The areas where savings could be made quickly are probably child allowances and medical charges.

Some Key Questions

Government wants to hear as many views as possible. Some of the questions which it particularly wishes to have views on are:

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?*

<p>The public consultation period in relation to this Green Paper will close on 13th January. Please submit your views on these and related issues before that time: either at a public meeting, other meetings called to discuss the Green Paper or by e-mail councillors@sec.gov.fk or in writing to Legislative Councillors.</p>
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