



Cabinet Office
Oik Coonceil ny Shirveishee



Isle of Man
Government
Reiljys Ellan Vannin

Consultation on the High Level Policy for Means Testing

Cabinet Office

May 2017

Foreword

This consultation on the recommendations in this high level policy is an important next step to develop policy for a “fair and consistent means-testing regime”, an aim first described at the beginning of 2015.

But, as the former Chair of Social Policy and Children’s Committee answered when I questioned him in June 2016:

“There are a wide range of policy options available in respect of means testing. Before determining the right ones it is important that we agree the principles under which any means testing system should operate, and this involves for example considering issues such as household composition and whether capital should be taken into account in assessing means. The Social Policy Committee have considered and agreed some of these principles and the next step is for the Cabinet Office in conjunction with Departments to assess current means testing systems against these to understand the level of work required to align the different systems in place at present. In terms of a timetable I am not able to be definitive. The current system is complex and to simplify it we are likely to need legislative changes and considerable input from a number of different organisations. There will also be a technological aspect to this as it is clear to me that a card-based system for providing benefits will offer the best opportunity to develop a more flexible and responsive way to protect the vulnerable.”

Your comments and suggestions are welcomed and valued. They will inform the development of more detailed policy and an implementation plan for coming years.

This is a massively important topic, but we have to be realistic about the delivery timescale.

In one sense this consultation on high level policy is only the next step in a process, but the policy and principles in it if agreed can be instrumental and transformative.

Consultation responses should be sent by 18th August to carl.hawker@gov.im or to Carl Hawker, Executive Director Policy and Strategy, 3rd Floor Central Government Office, Bucks Road, Douglas IM 1 3PN

Thank you.

Hon Chris Thomas MHK
Minister of Policy and Reform
Chair, Council of Ministers’ Social Policy and Children’s Sub-Committee

May 2017

Background & Introduction

Everyone seems to agree that the current means testing system can be simplified and focused for the benefit of everyone, providing clarity and consistency. The criteria and mechanisms used both to determine eligibility for and access to the range of services provided free or below cost and the provision of social security benefits need to be revisited and refreshed.

Moreover piecemeal changes were made between 2011 and 2016, including modifying student award arrangements, introducing a child benefit means test, and raising the issue of public sector housing means testing.

Government also commissioned consultants to review the Island's Social Security and National Insurance systems, and findings of this review were considered in the Big Debate discussions in 2014, and informed the consultation and Tynwald decisions in July 2015 about Treasury Proposals for Social Security and National Insurance Reform.

Some consensus was reached. For instance nine out of ten people agreed that those who could afford it should pay for some services (i.e. means tested elements where appropriate) and agreed that 'the welfare system (excluding pensions) is there for a hand up not a hand out'. And six out of seven people agreed that we should only have to tell Government something once and that we would like to be in control of our own personal information.

But how to make these real changes remains the issue. It is not easy to unravel where we are, never mind develop something better, especially at a time when public finances are strained.

In summary the determination of eligibility for state provision or assistance based on means - means testing – remains a political issue with many unanswered questions.

- When should provision be based on needs or on another criterion like age or even be available universally, either as a matter of social principle or to minimise the inevitable administrative expense of means testing?
- If means testing is applied, what and whose means should be taken into account; how can, and how should, financial and other information be collected and used; and what consequences should result from failure to meet obligations?
- What additional services should be provided free or at reduced cost to those who are entitled to means-tested benefits, so called 'passporting'?

- How are poverty traps, cliff-edges and the provision of an incentive for work tackled?
- How can many separate means tests, often with different application forms and processes, be justifiable?
- What level of support and provision can and how should a financially responsible government provide, and should this support and provision be financed?
- Could social security and tax systems be linked in the longer term and, if so, how?

These questions need addressing. Not doing so would be financially irresponsible, for those who need and for those who pay for our social security, healthcare, and public sector housing, as well as aspects of other parts of public provision.

Thus the Social Policy and Children's Council of Ministers Sub-Committee, to which the Council of Ministers gave responsibility for developing means testing policy, is determined that these questions will be addressed and that a "fair and consistent means-testing regime" will be in place sooner rather than later. To this end your views are sought on five high level means testing policy recommendations, and on the approach and principles that underpin them.

These five high level means testing policy recommendations cover the "what means", "whose means", "when are means tested", "how are means tested" and "which provision is means tested" questions. Each of these questions needs to be answered to simplify a complex system.

A 'one size fits all' system for means testing is not envisaged; rather generally agreed principles that can be applied across public provision and social security are sought. Nor is a 'big bang' reform proposed; rather step-by-step transition and incremental change from the current arrangements - which have evolved over a century - to a better regime, one that is "fair and consistent".

Scope and definitions

Many services are provided by Government free at the point of delivery. These include most of our health, school education and emergency services. These services are not means tested.

Other services are charged for with all similar users all paying the same. These include items such as vehicle excise duty and payment for tickets at entertainment venues.

A further area which is not means tested is where the charges or the benefits paid are age (not income) determined. For instance the state pension or reduced fares on public transport etc. are universally available, based on your age not on your income.

Currently some support is provided universally based on a persons circumstances, such as disability benefits or carers allowance. These are services or payments based on **an assessment of need** and the proof of need can provide a gateway to either universal free support or a means test.

Means tested charges or benefits are ones where Government support is dependent on an assessment of income or capital. This includes benefits given by proxy where eligibility for one means tested benefit (for example Income Support) generates an entitlement to others such as legal aid or free school meals.

Means testing often includes eligibility testing, where to be eligible for a benefit (e.g. public sector housing), income or capital must be below a certain level.

Definitions include:

Eligibility – The threshold that needs to be met to qualify for provision. This is set by Government and can include additions and deductions in respect of specific circumstances (e.g. a disability or the presence of an additional child in the house). Eligibility can also be financial or related to circumstances. It therefore includes needs based tests as well as means tests.

Means Test – A test of the income or capital of a household unit to determine the amount paid or received (if any).

Provision or a benefit which requires a person to declare his or her income or capital, or is dependent on the payment of a benefit which includes such an assessment (known as “passported benefits”), is means tested.

Examples include:

In Education

University Tuition and Maintenance Grants
Free School Meals, school uniform support
Discounted or free course fees at Isle of Man College
Higher levels of Pre-School Credit
Children participating on Sports Development Schemes

In Housing

Access to Public Sector Housing.

In Social Security

Employed Persons Allowance
Income Support
Child Benefit
Additional Funeral Payment
Budgeting Loans and Exceptional Needs Grants
Free TV licences (where under 75)
Winter Bonus

In Healthcare

Free Prescriptions (where not related to condition or age)
Free dental treatment
Free Milk
Eyesight tests and cost of glasses
Domiciliary Care
Help with the cost of travelling to hospital for treatment

In Law

Legal aid

Issues in simplifying a complex system

1) What means: differences in definition of income and capital

Some incomes are obvious, income from work or from savings for example. Others are less clear and depend on complex calculations (for example when going into residential or nursing care an assumed income may be placed on your home for the purpose of assessing your eligibility for benefits).

Many means tests allow deductions from gross income to come to a net figure that determines eligibility. Thus mortgage interest may be a deduction for one means test but not for another. Many means tests also allow additions, eg an additional sum to reflect the cost of having an additional child present in the household.

Treasury are best placed to make these calculations and assessments but it is not intended that a centralised "single" means test will be applied in Treasury, as might once have been envisaged.

In fact a 'one size fits all' system for means testing is not proposed; rather generally agreed principles that can be applied across public provision and social security are sought.

Simplicity and consistency are the objectives. Initially the agreed policy and principles will be utilised in various parts of Government for means testing. Longer term a single database with the necessary information will be held by Treasury.

Some important principles in this are:

- Government recognises that means testing can be potentially complex and that therefore assessments should, in the main, remain as simple as possible and evolve as circumstances permit;
- Clear and understandable criteria for means testing need be drawn up; and
- There should be a statutory right to ask for a reconsideration of any decision and for the right to appeal against a decision to an independent tribunal.

Recommendation 1

- **That the means testing calculation is done by the Treasury in the medium to long term;**
- That a standard list of incomes, capital assets, additions and deductions which would be used for means testing is drawn up;
- That there is one application process where relevant information is provided;
- That Treasury prepare an implementation plan for the process and system;
- That Government moves gradually to standardise the income, capital, additions and deductions included across all means tested benefits; and

- Treasury will work towards gathering the information in a central database for means testing.

2) Whose means: differences in whose income or capital is counted

People live in different types of households and means tested systems have developed to prevent a) shifting of income and capital between family or household members to qualify for benefits and b) reduce the complexity around household incomes when household compositions frequently change. In addition, means tests such as student awards assess the income of parents in determining the eligibility of young adults.

Given that many costs are shared across households (e.g. heating etc), the household seems the fairest group on which to base the assessment. However it does not seem fair that those sharing a household – for instance an elderly parent or an adult child - have their whole income included. It may therefore be more appropriate to make a deduction from eligibility in respect of these individuals in the same way that additions to eligibility are made if there are dependent children in the household.

As such the income of up to two adults in a relationship sharing an address is recommended as the basis of a means test.

Legislation will be required to set out the terms under which a relationship will be deemed to apply. There is already social security legislation to this effect.

Recommendation 2

- **That the “income of up to two adults, in a relationship, sharing an address” is the standard measure for determining means;** and
- That full time students are assumed to be living with their parents for this purpose regardless of their actual circumstances.

3) When are means tested: how often to assess means

As noted above, circumstances change regularly. There is a balance to be struck between the cost of administration and the ideal of a fully flexible level of support.

An important point to take into account is that the simplest means test is an assessment of actual income at a given point in time; the most complex means test is an assessment of all income, investments and assets over a given period of time;

Recommendation 3

- **That cash payments are assessed more regularly than eligibility for free or discounted services;**

- That access to services (including payments to third parties - such as universities) be assessed on an annual basis unless a defined set of material circumstances (e.g. separation) require; and
- Where passported benefits are linked to cash benefits that these as reassessed on the same timescale.

4) How are means tested: how to avoid "cliff edges" and reduce stigma

One of the aspects most criticised in the current system is the existence of "cliff edges", whereby a small increase in income results in the wholesale removal of benefits leaving the person concerned worse off.

This can result from "passporting", the adding of additional entitlements based on qualification for a benefit. For instance Employed Persons Allowance has a sliding scale of payments based on a 70/30 split i.e. when income increases 70% of this is clawed back through lower benefit payments and 30% remains. And student awards over £100,000 are reduced at a rate of 35% for each pound earned.

What is needed is consistency applied across the board. This requires the value of the benefits to be assessed, a baseline minimum income requirement to be set and technology introduced to allow a phased withdrawal of benefits as incomes rise. Micard is an example of this card technology.

Moreover, just as cash payments are subject to a phased withdrawal as income rises, eligibility for discounted services or other support ought to be reassessed and adjusted annually.

Using a card would ensure that the person accessing services pays in a range from 0 to 100% but only the cardholder would know. For example school meals could be set to a 100% reduction (i.e. free) or any range inbetween depending on income. A consistent card system could also set discounts at zero (i.e. full price paid). The same rate of reduction could be applied to public sector housing rents etc.

To summarise those who are means testing around Government would set eligibility thresholds and determine the maximum level of any support for any means tested provision or benefit. The Treasury would, by a process of phased withdrawal, ensure the reduction of such support as income rises in a way that prevents "cliff edges" occurring.

Two general and important principles are:

- When applying means testing to welfare and other public services and support mechanisms, "cliff edges" must be avoided; and
- The means testing process would as far as possible be user-friendly, resource-light and take full advantage of technology.

Recommendation 4

- **That a simple proportional withdrawal of the combined value of benefits is applied using technology to avoid “cliff edges”;**
- Households would be banded at levels of discount to standard charges ranging from 0 to 100%; and
- Cash payments will still be made where required.

5) Which provision is means tested: understanding the impact

It is proposed that as part of the Programme for Government updates are provided on progress achieved to bring about “a fair and consistent means testing regime”. Unpicking years of the operation of a complex system needs to be done carefully and in the full knowledge of the impact. It is also important that this process is perceived as an attempt to increase fairness and to simplify the process.

So approval of this high level policy for means testing would allow Government to start the process of aligning and harmonising various means tests, and should reduce the complexity of the system. Bringing the collection of information together would enable differences in incomes, deductions etc. to be highlighted and addressed.

The general principle is envisaged as follows:

- Government recognises that things like social security, public sector housing, and subsidised or free at the point of delivery services are necessary enablers to support a better society but that they should be directed towards those who need them most and should be provided with regard to a sustainable level of public finance.

Recommendation 5

- **That more detailed means testing policies are prepared by the Council of Ministers Social Policy and Children’s Sub Committee subsequent to this consultation and other ongoing policy development.**

Longer Term

The Cabinet Office is of the belief that a simple proportionate means test that reduces benefits as income grows begins to come close to a negative income tax. Standardising means tests may bring about the potential to assess means once across both Tax and Social Security. This would require significant legislative, political and administrative changes, although it could provide material administrative savings in the longer term, as well as a further level of simplification.

The high level means testing policy recommendations

The recommendations are:

- 1) That the means testing calculation is done by the Treasury in the medium to long term (“what means”);**
- 2) That the “income of up to two adults, in a relationship, sharing an address” is the standard measure for determining means (“whose means”);**
- 3) That cash payments are assessed more regularly than eligibility for free or discounted services (“when are means tested”);**
- 4) That a simple proportional withdrawal of the combined value of benefits is applied using technology to avoid “cliff edges (“how are means tested”); and**
- 5) That more detailed means testing policies are prepared by the Council of Ministers Social Policy and Children’s Sub Committee subsequent to this consultation and other ongoing policy development (“which provision is means tested”).**



Isle of Man
Government

Reilrys Ellan Vannin

