Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Welfare Reform, Rate Rebate Replacement Arrangements: Evidence from Housing Stakeholders

1 May 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mr Leslie Cree
Mr Paul Girvan
Mr John McCallister
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Dr Jennifer Donald	Chartered Institute of Housing
Mr Cameron Watt	Northern Ireland Federation of Housing Associations

The Chairperson: I welcome Cameron Watt from the Federation of Housing Associations (NIFHA) and Jennifer Donald from the Chartered Institute of Housing (CIH). Do you want to make some opening comments to start us off?

Dr Jennifer Donald (Chartered Institute of Housing): Thank you very much. On behalf of CIH and NIFHA, I would like to thank the Committee very much for the invitation to discuss the rate rebate replacement arrangements with you this morning. I will cover a few high-level general points and then let Cameron get into the detail.

Before I move on, I will give you a little bit of information about the Chartered Institute of Housing, just in case you have not come across us before. We are the professional body for people who work in housing and communities. We have a membership of around 600 in Northern Ireland, and 22,000 worldwide. We are a professional organisation that represents people across the public and private sectors. We have members from housing associations and the Housing Executive, as well as private landlords and house builders.

Before turning to the consultation document, we would like to note briefly how helpful the consultation process itself has been. The public consultation event that was hosted by the Northern Ireland Council for Voluntary Action, at which the Department of Finance and Personnel (DFP) presented the paper; the Department's willingness to share additional figures and information when requested; and the opportunity to have bilateral meetings with officials have all contributed to an extremely open and constructive exchange. We also welcome the Executive's decision to continue the current rate of funding for this year, and possibly into next year, in order to allow time for appropriate arrangements to be developed. I have colleagues in England who are working with local authorities and who have had to implement a 10% cut to council tax benefit immediately. As a result, they are being forced into a wide range of different approaches. Those are quite often based on expediency, rather than on the best way of providing support. We have an opportunity to design a new scheme that better aligns with universal credit and is better at targeting support to those who need it most.

Our biggest concern with the new arrangements is the switch from annually managed expenditure spending to the departmental expenditure limit, and the move away from a demand-led system. That will potentially have impacts in the longer term, particularly as benefit expenditure tends to grow. That is one of the difficulties, from our point of view, in going forward with some of the options in the paper, particularly option 1.1, in that removing current supports may not address the shortfall in funding or meet increased demand.

In our response to the consultation paper, we have focused on the need for longer-term replacement arrangements to focus on the ability to pay when designing a new scheme for rates support. Essentially, that would mean developing an income-based scheme, while still ensuring that special protections are applied to groups that are determined as vulnerable. We have noted the comments from previous evidence sessions around fairness and incentivising early payment of rates. Clearly, much more information and debate is needed before any decision can be made on whether we should remove any current support measures. Based on the information provided thus far by DFP, CIH and NIFHA are in favour of continuing with the disabled person's allowance in some form, because it is in line with other housing-related welfare reform exemptions for people living in adapted housing. By continuing with the current range of supports in the longer term once universal credit comes into effect, there is a risk that working-age households would end up disproportionately bearing the cost of reductions in rates supports — the very group that welfare reforms are generally aimed at helping through the principle of making work pay.

That brings me to another key point: the need to ensure that whatever new arrangements are put in place do not detract from the benefits of universal credit. If the objective of the new benefits system is to make work pay, it would be counterproductive to develop a rates support system that fails to mirror the gentler overall withdrawal of universal credit. In our evidence to the Committee for Social Development on the Welfare Reform Bill, we suggested that the current system of support for rates should be replaced with a scheme that will enable the same taper to apply to rates support as if it were part of universal credit.

Our position echoes that of the Institute for Fiscal Studies in seeking an alternative to low-income households returning to work or taking on additional hours, and finding that they then have to very quickly take on responsibility for the payment of rates. That requires that the payment of rates is assumed at a level commensurate with universal credit, ensuring that households do not find themselves only very marginally better off in work.

We note that, in England and Wales, the Secretary of State for Communities and Local Government is obliged to commission an independent review of all the council tax support schemes within the next three years to see whether it would be better off inside universal credit. Therefore, it would be useful for us to consider that at an early stage. We appreciate, however, that there are challenges with that. Simply including everyone in universal credit in the rates rebate replacement arrangements would result in a very expensive scheme. However, there are other options, such as perhaps targeting support at the lowest end of the income range by slightly steepening the taper over the whole range of incomes, or steepening it more sharply once a certain level of income is reached. Other voluntary and community sector representatives have suggested something similar. It is a question of working through all the potential variations and modelling options.

There is another issue with some of the work around rates replacement arrangements from the perspective of tenants who are receiving support for rates. At the minute, housing benefit and support for rates are administered by the Northern Ireland Housing Executive. However, universal credit will be administered by the Social Security Agency. If rates support remains outside universal credit, there is a possibility of a disconnect arising between the two forms of housing support. Having spoken to landlords who work with low-income and vulnerable tenants, particularly in the private rented sector, there is a concern that they may not apply for support for rates once it is separate from housing costs. Many low-income and vulnerable tenants are unaware that they currently receive support for rates because it is rolled up in their housing benefit application. The question of who administers any future rates rebate replacement scheme and how it links with universal credit will be an important consideration in its success in targeting those with the least ability to pay.

We appreciate the complexities involved in developing new arrangements and suggest that we might look at several iterations of the scheme as policy changes such as the migration to universal credit, changes to pension credit and the introduction of a flat-rate pension come online. CIH and NIFHA are committed to continuing to work with the Department to support this process in any way that we can. That might be through detailed modelling work or providing more information on the practical aspects of new arrangements from a landlord's perspective.

I will hand over to Cameron to look at how some of the specific issues that housing associations identified in response to the consultation could be dealt with.

Mr Cameron Watt (Northern Ireland Federation of Housing Associations): Thank you, Jenny. I also thank the Committee for the opportunity to attend, and Brian McClure and his team at DFP for the way in which they have engaged with our sector on this issue.

NIFHA represents Northern Ireland's 30 or so housing associations, which collectively provide almost 40,000 social homes and around 5,000 affordable homes through co-ownership. As Jenny has said, we support the principles behind universal credit, but the decision of the Westminster Government to localise the administration of council tax and rates relief is ill-conceived. As with the bedroom tax, it has nothing to do with simplifying the system or making work pay, but is simply about making budget cuts. We all know that it will be exceptionally difficult to create interim and new arrangements that meet all our key policy objectives.

A very high proportion of social tenants in Northern Ireland — around 80% — receive housing benefit, and most recipients' awards cover the full amount of their rent and rates. Therefore, any changes to rates support will have major implications for social tenants and their landlords. It is unclear how rates support will be paid to Housing Executive, housing association and private sector tenants under any interim or new arrangements. Will it continue to be credited to social tenants' rent accounts, which may require a new payment interface, or will it be paid to claimants, which will have major implications for the means and costs of collection?

Under current arrangements, rates support through housing benefit for social tenants is assessed using standardised rates charges applied in the social sector. The benefits are then credited directly to Housing Executive and housing association tenants' rent accounts, along with the rent and service charge elements. Housing associations have agreed to collect rents on behalf of Land and Property Services (LPS) in return for a 10% discount. However, it is our understanding that the legislation does not currently oblige housing associations, or any other landlord, to collect those rates.

With the decoupling of rates support from rent support, many social landlords might wish to hand over responsibility for the collection of rates for social housing tenants to LPS, and let it manage the charging, collection, assessment and payment of those reliefs. However, that would be complicated by the fact that, under current legislation, where properties are valued at less than £150,000, liability for the payment of rates lies with the landlord. Also, individual records of the standardised social sector rates charges may not be on the LPS system. Therefore, whether it continues to be landlords or LPS that collect the rates, any interim arrangements for social tenants should probably continue to use the standardised charges. However, ahead of any more fundamental reforms, it will be necessary to decide whether the new rates support system should use standardised or capital-based rates charges for social tenants. We need to assess the implications of both approaches. However, for the sake of equity and consistency, NIFHA is minded to support a capital-based system across all tenures for the new system when it is introduced in a few years.

Housing associations have major concerns about any interim or new system for rates support that would impose on them requirements to collect small amounts of rates from their low-income customers. It is clear that, whatever the final shape of welfare reform in Northern Ireland, as in the rest of the UK, tenants will no longer necessarily receive the full amount of their rent and service charges through the benefits system. Associations will be faced with significant additional costs to collect their rental income, upon which their viability depends, and to help tenants sustain those tenancies. So, in those circumstances, many associations will be asking whether they have the capacity to collect third-party debts on their behalf. Even if tenants are able to pay the portion of rates that they become liable for, associations will face much increased administration costs. Each small payment will be accompanied by significant transaction costs to use Allpay or similar systems. Therefore, the 10% discount association that is currently received for collecting rates will probably only compensate our members for a fraction of the additional costs that they could be incurring.

Under any top-slicing of current support, LPS will also face significant increases in its administration and transaction costs. We believe that it is likely that rates arrears will quickly appear for a significant number of tenants, and housing associations are concerned that they will have no means of recovering that debt, akin to the legal means that they have of recovering rental arrears. In the most extreme cases, it is unlikely that any judge will grant possession to a housing association on the grounds of rates debt alone. Therefore, the reforms pose a threat to the finances of housing associations and our ability to continue to provide more and better homes. That is a unique risk for housing associations in Northern Ireland compared with the rest of the UK, and that could compromise our ability to compete for funding.

There are striking parallels with the problems and perverse consequences of the bedroom tax. In this age of austerity, savings clearly have to be found. However, welfare changes that impose greater direct costs on the public sector and social housing providers than they save in benefits should be avoided. We think that it is also reasonable to ask about the degree to which landlords should be expected to fund the costs of dispensing a function that is primarily the responsibility of another body.

Therefore, in conclusion, we applaud the decision of the NI Executive to fully fund rates support for this year, and we believe that there is a persuasive case to extend that provision for the whole of 2014-15, rather than to rush into introducing an interim system that could easily cost more to administer than it saves. With regard to any interim scheme, we broadly support option 1.1 in the consultation paper on maintaining equivalent support to the current level, but removing some of the other rate reliefs. I am a regular churchgoer, but I do not believe that the clergy, for example, should benefit from special privileges in this area. However, any interim scheme that significantly increases risks and costs for landlords must include measures to mitigate those risks and provide compensation for additional costs incurred by landlords. We need to consider significantly increasing the discount that landlords receive for collecting rates. I know that others were telling you that you should reduce that. However, we think that if there are significant additional new costs, landlords should be recompensed fairly for those.

We support the points made by Jenny and the voluntary sector representatives that any new system should provide help to those most in need, while supporting the work incentives of universal credit. However, looking further ahead to a completely new scheme, we have to ask whether it is reasonable to continue to expect landlords, whether they are private landlords or social landlords, to collect rates once the universal credit is fully introduced. The compelling reasons for collecting rates alongside rents will have disappeared, and that must be reflected in our policymaking on the matter. Therefore, we would be strongly minded to support the integration of rate support into universal credit, given time.

We should also reflect on whether landlord liability is consistent with the principles of universal credit, including fostering personal responsibility. When tenants and owner-occupiers are similarly reliant on the public services that rates pay for, why should one group be directly liable for that form of taxation and another not? Thank you.

The Chairperson: Thank you. Your evidence will help to inform the Committee's position, and, obviously, we will be feeding back to the Department. In your document, Cameron, you outlined that you are broadly in favour of option 1.1 in the shorter term and option 4 in the longer term. Jennifer, what is your view?

Dr Donald: It is the same: option 4 for the longer term, and we would go with option 1.1, perhaps looking, with some variations, at what the current supports are.

The Chairperson: What about the funding of option 1.1 with regard to the reduction or the removal of other forms of current support? Do you have any particular views on that?

Dr Donald: One thing that we would worry about in the long term is that even if some of the current supports were removed, it will still not be sufficient to make up the shortfall, particularly as expenditure on benefits continues to grow.

We identified in our response to the consultation that, in the absence of more detail on each support and on who is being targeted in the headline categories, you would probably be looking at continuing with supports that are means-tested and targeted at those who are in most need.

The Chairperson: A review mechanism was referred to. Will you elaborate on that?

Dr Donald: A colleague who is working on this issue in England brought that to my attention. It is in the Local Government Finance Act 2012, which states that the Secretary of State for England and Wales is obliged to commission a review. There was much discussion about whether support for rates should be included with universal credit in the GB Welfare Reform Bill. When the Bill reached the House of Lords, an amendment was tabled saying that rate support provision should be in universal credit.

The decision was made to keep it separate. One of the requirements of doing that, however, was that a review mechanism was put in place to determine whether, on the evidence over three years, a rate-support provision would be better off in universal credit. Again, that is to do with the withdrawal of support to ensure that universal credit is withdrawn at a gentler rate rather than at a sudden and steep rate by withdrawing support for rates. It is about ensuring that a household moving into work, longer hours or better-paid work is not being hit disproportionately for rate payments and that other benefit support is being withdrawn at a more manageable level.

Mr Watt: Frank Field and other welfare experts made the point that having rate support — council tax support in England — outside universal credit would make it much more difficult to guarantee that people are always better off in work than on benefits. Presumably, it would mean that there would be all sorts of weird and wonderful withdrawal rates from benefits into employment, whereas the whole purpose of universal credit is to have one simple and understood withdrawal rate, or smooth taper rate, off welfare and into work. This anomaly undermines a lot of that.

Dr Donald: It does. We produced figures to illustrate the combined withdrawal of universal credit and rate support. If rates are kept outside universal credit, claimants are left with 10·2p for every extra £1 that they earn, as opposed to the 23·8p in the universal credit withdrawal rate. We can provide the Committee with additional figures on how we worked that out.

The Chairperson: In its consultation, the Department laid out four key policy aims: supporting the most vulnerable; making work pay; protecting revenues; and working within a cash-limited budget. What weighting do you think should be given to each of those?

Mr Watt: My priority would be to support the most vulnerable over making work pay. Those two may be intentioned, but I think that vulnerable households will be faced with a real squeeze from a combination of areas. The cumulative impact of a lot of welfare reforms will hurt a lot of low-income households. We also know that universal credit will reduce.

Even if, for example, we were able to do something on the bedroom tax in Northern Ireland, which I hope that we can, we know that, although there will be many tens of thousands of winners as a result of universal credit in Northern Ireland, tens of thousands of families will be worse off. So, I think that it is incumbent on us to do everything that we can to support the most vulnerable where we can. We may have to stick to the core provisions of universal credit, but this is an area where we have discretion. I would make supporting the most vulnerable and making work pay as the first and second most important priorities.

Dr Donald: We agree; supporting the most vulnerable has to be the number one priority.

We take on board the point about working within the cash-limited budget. I think that there is also some work to be done in looking at how rates rebate support fits in the broader picture of discretionary support measures and how it may align with other things that the Executive can do to help to bolster these limited budgets.

The Chairperson: Do any members have any questions?

Mr Cree: As you just said, the big difficulty in bringing in any of these benefits systems is that there are winners and losers. I read the document a couple of times. If we accept universal credit as the norm that we work with, do you see a situation where we should leave particular parts of the benefits system outside it?

Dr Donald: From what I know of universal credit, and according to colleagues in England who are working closely with the Department for Work and Pensions and who have more detail on the IT system, streamlining the benefits system is a really sensible thing to do. Doing that and keeping everything within universal credit is the most straightforward means of managing it. It is also more accessible for claimants. However, there are so many different scenarios and situations, and people's individual lives are so complex that I think that there will inevitably be scenarios in which certain benefits will have to be administered outside universal credit. I think that that will undoubtedly be the case. Keeping as much as possible within universal credit where we can is the best option both for the administrative element of it and for claimants who are accessing it.

We are working with tenants in the private rented sector and the social sector who are dealing with a raft of changes at the minute. They are struggling to get their heads around what this means for them, who they should go to now as their point of contact, how they apply for things and what they can apply for. The housing system is undergoing a major process with changes to the Housing Executive and changes in the private rented sector through increased regulation. So, a lot is happening, and I think that we should try to keep as much as we can straightforward and simple.

Mr Cree: I will just push you a bit further on that. If, for example, everything is not included in the universal credit system, you could make it simple and make the transfer to work that much easier. If these elements are outside that, does that not defeat the object of the exercise?

Dr Donald: Sorry, could you repeat the last question?

Mr Cree: If certain benefits, and rates might be one of them, are outside the benefits system, does that not defeat the object of the exercise?

Dr Donald: Yes, I think that it does to a degree. From our point of view, disconnecting rates from rents in the support that is provided would make the situation very difficult for tenants and landlords.

The Chairperson: Cameron, your submission refers the disabled person's allowance and to the fact that we would need to ensure:

> *"the provision of disability adaptations do not increase the value of people's homes, resulting in an additional amount of rates to be paid."*

Can you elaborate on that difficulty?

Mr Watt: I am sorry; I do not have my submission in front of me. I presume that if we were to move from a standardised charges system to a capital-based system, costly adaptations could increase the capital value of the home. I do not think that it is a major potential danger, but it has to be considered.

The Chairperson: OK. Do any other members have any questions? If not, I will thank Jennifer and Cameron.