Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Future of the Rates Element of Housing Benefit: DFP Briefing

6 June 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Conor Murphy (Chairperson)
Mr Roy Beggs
Mrs Judith Cochrane
Mr Leslie Cree
Mr David Hilditch
Mr William Humphrey
Mr Paul Maskey

Witnesses:

Dr Veronica Holland	Department of Finance and Personnel
Mr Brian McClure	Department of Finance and Personnel

The Chairperson: We have Brian McClure, who is head of the rating policy division of the Department of Finance and Personnel (DFP), and Dr Veronica Holland, who is from the rating policing division. I ask that you make some opening remarks, and then we can take some evidence. For members' information, there is correspondence in your packs from the Committee for Social Development, which has requested an update following this evidence session.

Mr Brian McClure (Department of Finance and Personnel): Chair, thank you for the opportunity to update the Committee on the future of the rates element of housing benefit, also known for many years as rate rebate. This session and the next session on data sharing, although separate, are interrelated.

As members will be aware, a number of quite major welfare reform changes are to be introduced throughout the UK from 1 October 2013. A cross-party Executive subcommittee on welfare reform has been and is considering the impact of those changes, including how this will affect the rates element of housing benefit. One particular change that will have consequences for all that is the abolition of council tax benefit in GB from April 2013, which provides support for local taxation bills there. As I say, that will take effect from 1 April 2013. The equivalent scheme in Northern Ireland is the rates element of housing benefit. It currently protects 160,000 households in the rented sector in Northern Ireland and a further 65,000 households in the owner-occupied sector. So, this is a big impact change that we are dealing with. It is not one of the smaller rate reliefs; it is the big one in respect of protecting lower-income households through a means-tested scheme. From next year, it will be taken out of the social security arena and will become a devolved matter. That will coincide with funding being transferred to the devolved Administrations in Scotland, Wales and Northern Ireland and to local authorities in England. It will move from annually managed expenditure (AME) to departmental expenditure limit (DEL), subject to a 10% reduction. The rent element of housing benefit will be absorbed into a housing cost element of universal credit, and the rate support element will become a DEL-funded devolved matter.

In the rest of the UK, replacement localised rebate schemes are being introduced to provide support with council tax bills. Scotland has already indicated that it will fund the 10% shortfall in 2013-14. It is understood that a similar approach is being adopted by a number of local authorities in England, but it is too early to say how many. Interestingly, Wales is taking a different approach. It has decided to go for a slimmed-down council tax benefit scheme. So, quite a different approach is being taken there.

Locally, the way ahead is being considered by the Executive's subcommittee on welfare reform and the Executive. Last Thursday, the Executive agreed to continue with the existing support scheme for an interim period and to make up the funding shortfall that will occur due to the reduction in Treasury funding. Members will wish to note that in the first year, 2013-14, the funding shortfall will be about £13 million a year. The Department considers that there is no viable alternative to that in the short term. There is simply not the time to develop and introduce a new replacement scheme, given all the necessary steps that have to be undertaken by 1 April 2013. Therefore, the continuation of the rates support scheme will be for an interim period, and our Minister wishes it to be no longer than 24 months.

Looking beyond that, Members will wish to note that the Department for Social Development (DSD), supported by DFP, is preparing a strategic options paper on the way forward. That will encompass not only rate support but some of the other benefits that fall outside universal credit, and it is to be presented to the Executive's welfare reform subcommittee before the summer recess. The adopted approach of holding the existing scheme means that there will be more time to analyse the impact that welfare reform will have and to put in place alternative support arrangements that are fit for purpose in protecting the lowest-income households in Northern Ireland and that will align with other aspects of welfare reform.

Further information and analysis will be provided to the Committee in due course, as it becomes available. I will also update the Committee on the wider strategic options paper as soon as I can. Members will wish to note that, for the interim approach, legislative changes will be required to continue the current rates support scheme, and the Committee will be fully involved in that process. The Minister and I will welcome any comments that the Committee may have on the matter.

The Chairperson: Thank you very much. Was the decision to transfer this from AME to DEL a unilateral decision by the Treasury, or was it negotiated with the Executive or DFP?

Mr McClure: It was a unilateral decision throughout the UK. Our Minister is still pressing the case for Northern Ireland with regard to the rationale for that cut. Northern Ireland is different and distinct. We do not have council tax; we have the rating system. There are certain differences, and the Minister will be pressing the Treasury on that in the coming weeks.

The Chairperson: But you are operating on the basis that this is going to transfer with a 10% cut attached to it.

Mr McClure: Yes.

The Chairperson: Is the £13 million likely to increase year on year? Is it likely to be in line with inflation?

Mr McClure: For a number of reasons, we believe that it will increase substantially. First, we are still in a continuing downturn, so demand for the scheme will increase. Secondly, there are demographics to consider; people are getting older. I should have said that these changes will apply to people of working age, so that will have an impact. Thirdly, even though rate bills are pegged at inflation, they increase every year. We believe, therefore, that that £13 million will very quickly ramp up.

The Chairperson: Obviously, Treasury has transferred the matter. It is talking about a 10% cut, but after that, you are on your own. If you want to keep this support at a certain level, it is a hit on the Executive's budget.

Mr McClure: Yes. It is a hit for all the devolved Administrations. They can decide to retain it; they can decide to have a slimmed-down version of it; or, they can decide to support lower-income households in a different way. There is a range of very difficult choices to be made as a result of this change.

Mr Beggs: I take it that the £13 million represents the 10% reduction, so we are really talking about an overall cost of £130 million.

Mr McClure: That is correct. The current scheme costs about £130 million. We expect that we would get about £118 million in DEL cover.

Mr Beggs: With it going from AME to DEL, volatility of that top-line figure is bound to be a considerable risk. How volatile has the £130 million been over the past number of years? That would give us some indication of how the figure might change in the future.

Mr McClure: It has been increasing in the low percentage points every year for the past five or six years, so it is an upward trend. The calculation of a 10% cut will, at least, not be based on trend; it is based on a forward projection for next year. We have not yet got the figures on that from Treasury, but we understand that it will calculate it in that way.

Mr Beggs: Is the cut pegged at 10%, or is that figure scheduled to change at some point?

Mr McClure: It is my understanding that it is pegged at 10%. The mechanism for increasing that year on year has not yet been announced by the UK Government.

Mr Beggs: If the estimates are wrong, how do you hope to finance it? It just has to be financed because people need support in that area. Are you proposing to have a limit? Are you proposing to deal with it through in-year monitoring, or are you increasing your bid above the £13 million?

Mr McClure: If it is to be funded through Northern Ireland's public expenditure allocation, all of that has to be built into the design of the scheme. There are risks, and we will have to deal with the volatility. As I said, the Minister is still pressing the Treasury on the applicability of the 10% cut in Northern Ireland, but the current working assumption is that it will apply throughout the UK. We will have to deal with it and all the issues that you mentioned.

Mr P Maskey: Brian, you said that steps cannot be in place for a new scheme prior to 2013. What is the rationale for that?

Mr McClure: There are a number of things. First, we have to do all the research and analysis. We also have to assess all the impacts and do the section 75 equality impact assessment, and there is a timetable associated with that. There is also the legislative process. If you want to take through a new scheme, you have to take brand new legislation through the Assembly, with all the difficulties associated with that. So, even with the best will in the world, you would be hard pressed to get it through by April 2014, never mind by April 2013. It is far too short a period.

Mr P Maskey: Why are Scotland and other places way ahead of us?

Mr McClure: Scotland has decided to do exactly what we are doing, which is to continue with its existing council tax benefit scheme for at least another year to allow it enough time. It is Wales that has decided to do something different. It has already been out to consultation and is well ahead of everywhere else in the UK. However, that is not the approach that the Executive subcommittee favours, and it is not the approach that the Executive favour.

Mr P Maskey: How many households receive the relief?

Mr McClure: About 225,000.

Mr P Maskey: How does that £13 million break down per household?

Mr McClure: I can get that figure for you.

The Chairperson: Obviously, a longer-term legislative change is needed, but you remarked that some legislative change is needed to allow us to continue to pay at the current levels. That means some kind of short-term emergency legislation.

Mr McClure: There is already a consequential provision in the Welfare Reform Bill, which will be presented to the Assembly, and that will allow us to take forward changes through the rates legislation.

Dr Veronica Holland (Department of Finance and Personnel): That will be done through subordinate legislation and negative resolution.

Mr McClure: We have had detailed discussions with the Departmental Solicitor's Office (DSO) and the Office of the Legislative Counsel (OLC), and, as a result, we have put a saving provision in the Welfare Reform Bill that will allow us to do that.

The Chairperson: That legislation is required fairly promptly if we are to continue with the current situation. I presume that that will come through this Committee?

Mr McClure: It will, yes. There will be an enabling provision in the Bill, but regulations will follow from that, and everything associated with it will go through this Committee.

The Chairperson: I presume that that means that you will have to liaise. I am not sure if that is already built into our work programme for the coming year, so we would need an early indication of what timescale is likely to be required for scrutiny.

You say that the Executive subcommittee is working on an options paper that it hopes to have ready by the summer recess.

Mr McClure: DSD is in the lead on that, but we will support it as necessary.

The Chairperson: I presume that the Executive subcommittee has agreed that the options paper will be based on the overarching principle of protecting those who are least able to pay and will try to find a way to allow us to offset the impact as best we can.

Mr McClure: The precise terms of reference are not defined, but the general aim is to protect those least able to pay.

The Chairperson: Although the options paper is DSD-led, may I presume that we will be able to have a look at it?

Mr McClure: In the first instance, it will be presented to the Social Development Committee, but, as the Finance Committee has a direct interest, I expect that it will share it with you. We will feed that wish back.

The Chairperson: It will obviously have a direct impact on rates and Land and Property Services (LPS), so I presume that we will have a look at it as well and have some input.

Mr McClure: The strategic options paper will look at all the available benefit discretions for Northern Ireland that will be provided outside of universal credit.

The Chairperson: OK. Thank you very much. Does anyone else have any questions? I presume that we will look at this if not this side of summer recess, then certainly early after our return. In the interim, you can give us some sense of the legislative processes that are required so the Committee can be informed and build that into its work programme.

Mr McClure: We will do that within the next week or two, and we will feed back the average figures as well.