Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT
(Hansard)

Welfare Reform — Rate Rebate Replacement Arrangements: DFP Briefing

30 January 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Mr Paul Girvan
Mr John McCallister
Mr David McIlveen
Mr Mitchel McLaughlin
Mr Adrian McQuillan

Witnesses:

Mr Andrew McAvoy	Department of Finance and Personnel
Mr Brian McClure	Department of Finance and Personnel

The Chairperson: I welcome to the meeting Andrew McAvoy from central finance group's rating policy division in the Department of Finance and Personnel (DFP); and Brian McClure, who is head of rating policy division. You are both very welcome. Do you want to kick off and give us an overview of where we are with this?

Mr Brian McClure (Department of Finance and Personnel): Thanks to you, Chair, and the Committee for giving me the opportunity to update you on the Executive's preliminary consultation paper on rate rebate replacement arrangements, which come under welfare reform.

If the Committee does not mind, I will start by giving you an overview of the background. I apologise if I repeat what you already know. However, I think that it is important to set this in context. I will move on to describe what we are doing about the consultation and perhaps outline some of the policy constraints that we face. The Committee will be aware from previous briefings — I briefed it in October and, prior to that, in June — that, under welfare reform, council-tax benefit will be localised in Great Britain from April 2013 and expenditure, or funding, will be reduced by 10% from the same date.

The GB changes to council-tax benefit also apply to the Northern Ireland equivalent, which is the rate rebate element of housing benefit. Each local authority in GB and the devolved Administrations will have to come up with their own scheme for supporting council-tax payers — ratepayers in our case — with less funding being provided from Treasury, and, in doing so, continue to provide support for the most vulnerable.

Additionally, funding will transfer from the current arrangements, which are provided through annually managed expenditure (AME) to the departmental expenditure limit (DEL). That means that fluctuations in demand will have to be managed within a fixed budget, and, as I said, a potentially reduced budget.

The changes will occur in England from April 2013. What is driving that? Mostly, it is the localisation agenda and also a reduction in the fiscal deficit. Universal credit is a kind of technical change that is occurring, which means that we have to modify our scheme, but the main driver is the localisation agenda and tackling the fiscal deficit. Estimates put out by Treasury are that there is a saving of £470 million to be had throughout the UK as a result of the localisation of council tax benefit and rate rebate. I just want to make you aware that it is not universal credit in itself that is causing this.

As members will be aware, the Northern Ireland Executive have agreed to cover the shortfall in funding from public expenditure for up to two years, beginning in April 2013. The Scottish Government have also adopted that position. They are making up a funding shortfall of £40 million in the first year. As recently as last week, the Welsh Assembly Government agreed to make up the shortfall for a year, costing them £22 million from their DEL. Therefore, at present, we are in exactly the same position as the other devolved Administrations.

Housing benefit in Northern Ireland will remain unchanged in 2013-14, aside from that funding change from AME to DEL. Claimants will remain unaffected by the change. That would give us more time to develop a policy on a modified scheme. Nevertheless, time is against us. It is considered necessary to have a modified rates support scheme in place by April 2014 to coincide with the introduction of universal credit on that date, because current arrangements will simply prove to be unworkable and unaffordable. They will be unworkable because many of the current mechanisms for entitlement are used for around two thirds of claimants, who have their entitlement to rate rebate decided by income support, the employment and support allowance (ESA), jobseeker's allowance and all the various other national benefits. Those will be lost for new claimants with the introduction of universal credit.

Furthermore, Land and Property Services (LPS) has advised that it has a cut-off date of September 2013 at the latest for any major IT changes required to operate a modified rates support scheme. For all those reasons, the timescale is quite tight, even though we have managed, thanks to the Executive's decision to retain the current scheme for another year, to get that additional period in which to develop policy. I will outline later the steps being taken to draw out views from interested parties sooner rather than later.

By way of background to the scheme: the rate rebate element of housing benefit helps around 220,000 of the poorest households in Northern Ireland by paying all or some of the rates that are due. For claimants who are unable to pay any rates and are supported through the scheme, the support is equivalent to around £400 to £500 for the majority of them. The Committee will appreciate the importance of the issue for ratepayers who are on a low income, as well as the importance of supporting the rates system.

The consultation paper has followed a different path from our previous DFP consultation papers. It is an Executive-led consultation paper and, to date, we have been working through the Executive subgroup on welfare reform. The Executive Committee met on 10 January and agreed the draft consultation paper. On 11 January, a copy of that paper was provided to the Committee by our liaison officer. The final version of the paper issued for public consultation on 16 January, with a closing date of 10 April this year. That was quite a quick turnaround, and, as I said, we feel that we are under significant pressure to issue the paper. In fact, we were working over the Christmas holidays to ensure that that happened.

This is the start of a two-stage consultation process. The paper from the 12-week preliminary consultation will be used to inform how a new scheme might be developed and to gather fresh evidence of the potential impact on households. It is to establish some key principles for the design of a scheme on which we will consult later this year.

We are trying to adopt a very proactive approach to the preliminary consultation in order to elicit as many views as early as possible because it is not a consultation that we can afford to let run over the 12 weeks. As I said, it will be followed later in the year by more detailed consultation.

In advance of the consultation going out and being published, I sent out notice of it to 11 umbrella groups, mostly those associated with welfare rights: Advice NI; Age NI; Age Sector Platform; Citizens Advice; Disability Action; the Consumer Council; the Irish Congress of Trade Unions; the Law Centre for Northern Ireland; the Northern Ireland Anti-Poverty Network; the Northern Ireland Council for Voluntary Action (NICVA); and the Rural Community Network. That has meant that we have been able to meet fairly early in the process to prepare those groups. In addition, 100 groups and organisations were notified when the consultation paper was published. All MLAs, party leaders and Ministers have been written to in line with the distribution guidelines. The paper is available on the rating policy division website and the DFP consultation zone. Furthermore, because we are keen to get the views of individual households, we have also published in the three main daily papers.

We already met NICVA. I had a very useful meeting with Seamus McAleavey last Friday, and we discussed a way in which NICVA can help us to manage the consultation. We hope to have a seminar, probably around 20 February, which will be followed up with workshops to try to elicit views and to help those groups respond. We are very aware of capacity issues in the advice sector at the moment, because of the range of reforms that are taking place, so we are trying to put as much effort as possible into helping those groups respond. A further meeting has also been arranged with the Consumer Council on Thursday 14 February.

With regard to other developments, the Institute for Fiscal Studies has been commissioned by the Office of the First Minister and deputy First Minister to look into the impact of universal credit in Northern Ireland and the impact of changes to rate rebate. That work is due to conclude at the end of next month. We have been liaising quite closely with the Institute for Fiscal Studies and feeding in what analysis we can. We think this will be very helpful to the consultation process when that report is published, because not only will it address the issue of rate support but it will do so in a context where it relates to the impact of universal credit. As the Institute for Fiscal Studies is an independent body, we are very anxious that that work sees the light of day during our consultation, and it will further inform the second consultation that will take place later this year.

The Department will continue to engage with the various key organisations throughout the consultation period. We work very closely with policy colleagues in the Department for Social Development (DSD), and we are using the DSD analytical services unit to provide us with analysis as that becomes available. It is using the policy simulation model to help. Once we have a better idea of what a modified rates support scheme will be, we will be able to feed that in and publish that, and that will also help inform the equality impact assessments and the integrated impact assessment that we will have to produce for the second stage of the consultation. For the time being, the consultation is mostly about establishing some key principles, and our main ambition is about how to deal with the issue and continuing to protect the most vulnerable and to deal with changed funding arrangements, and so on. Some difficult choices have been outlined in that consultation paper, and we will be very interested, throughout this process, in the views of the Committee.

The Chairperson: Thank you, Brian. You said that a number of processes are taking place in parallel in England, Scotland and Wales. Are they in the exact same position of laying out a number of options, or have any Ministers with the responsibility indicated that they are minded to go down a certain route?

Mr McClure: That is an interesting question. Scotland has not gone out to consultation yet, so we are ahead of them in that sense. I imagine that the Scots will go out with a single consultation. We will do two consultations and, at some point, Scotland may well overtake us. However, they have not presented any policy proposals to Ministers yet. Wales went out to consultation early last year, and it was a very high-level consultation. As a result of that, up until last week, we had understood that the Welsh Assembly Government had decided not to make up the shortfall. They have since changed their minds; that was announced, I think, last Thursday. They are following the approach that we have taken in Northern Ireland, which is to, in the short term, make up the funding shortfall and continue to protect those who get support through the existing system.

The Chairperson: The LPS cut-off is September. When are the consultations?

Mr McClure: The consultation runs until 10 April, and we will go out about six weeks later to the second consultation.

The Chairperson: When does the second consultation end?

Mr McClure: That will run for the full 12 weeks and take us through to start of August. Most of that consultation period will be before the summer.

The Chairperson: One or two months to tie that up is quite a tight window.

Mr McClure: It is very tight. We are engaging with some key interest groups and trying to look in more detail at some of the options. We will form views on it as the consultation progresses, but six weeks is a very tight timescale.

Mr McQuillan: That answers most of my question. I think the timescale is too tight, Brian. It will end up in a whole mess. How big a problem will the 10% reduction in the overall budget be?

Mr McClure: It starts off at around £13 million. By the end of the third year, our worst scenario is that it can go beyond £40 million. That is an annual cost. The worst scenario is calculated by extrapolating current trends. It is based on increasing demand for rate support, annual uprating and changes in demographics. However, the main underlying thing is the economic downturn. Some households are finding it harder to pay their rates; therefore, more people are applying. So demand for the scheme will increase. The problem that we face in Northern Ireland — as in the rest of the UK — is that we will be given a fixed budget to continue this scheme against a picture of growing demand.

Mr McQuillan: What other ideas have the Executive got to try to make up the £40 million?

Mr McClure: We have a blank sheet in the Department, and those are the issues that are addressed in the preliminary consultation. We could choose a number of things. I think that we will end up with a combination approach. We might make up some of the shortfall. We might cut back on other support measures, whether rate support measures or other non-means-tested benefits, I am not sure. Those are the questions that are asked. We could also target the scheme. We could decide to top-slice it. The approach of the Welsh, until recently, was that everybody should pay 10% of a council tax bill. I would have thought that that would be politically difficult, and so it has proved to be, because they have changed their minds on that. However, that is one option. Another is to protect some vulnerable groups, but others would pay more. There are important issues. For example, should we in Northern Ireland, as is the case in England, make a decision to protect pensioners entirely from these reforms or should the rates support changes apply only to those of working age? The 10% is across the board. If you decide to protect pensioners, that will wash back on those of working age. It could mean 20%-plus cuts for others. So the 10% is a little bit misleading in that sense. Those are all the fundamental issues that are addressed in the consultation paper.

The Chairperson: I want to ask about the financial implications. Obviously, you outlined that there is a serious challenge in achieving the policy aims. The four aims outlined are supporting the most vulnerable; making work pay; protecting revenues; and working within a cash-limited budget. How do you see the Department meeting the policy aim of making work pay? What is your interpretation of that?

Mr McClure: That is to do with how well you can align it with universal credit. You do not have to align it with universal credit. It is a fully devolved matter; it is for the Executive and the Assembly to decide. Those are some of the principles that we are setting out that are maybe aspirational. I do not think that you can achieve all those objectives in the one scheme. It will have to be a bit of a compromise.

I also think that the solution to this will have to be a combination approach, rather than a single solution of cutting this to pay for that. It may well be that we make up some of the shortfall and we target the scheme a bit better. As I say, the Department has no views on that at the moment. It is an Executive-led consultation and the Executive want to find out what people think about this, but something has to give. Whether that will be public expenditure, cutting back on the scheme in the future, or cutting other support schemes in the rating system or outside it — those are all decisions to be made. I do not know whether it will mean that other ratepayers will pay a bit more, but, during this mandate, given the decision to freeze the regional rate, I imagine that would be very difficult politically.

Mr Girvan: Thank you very much indeed, Brian, for your presentation. I have difficulty in coming to grips with what you said about there being a ceiling. No one knows what could happen round the corner. Our economy had a major kick in 2007 and 2008, when everything went belly up with construction and how that affected our whole industry. Those who are receiving housing benefit are effectively getting their rates paid. As a consequence of that, it is not having any impact on the Northern Ireland block grant because it is being paid directly from Westminster as a part of social security. You mentioned the fact that a ceiling would be set. Where are the negotiations on where that ceiling is set? I would like to investigate that point.

Mr McClure: Currently, the cost of the scheme is about £130 million a year. The final figures have not been settled yet. We will be getting an additional DEL transfer of £117 million. That is £130 million less 10% or thereabouts. So, a final figure has not exactly been set. Certainly, however, the principle of a 10% cut has. That will then become Northern Ireland DEL. The Executive and the Assembly can choose how best to use that money. That is the choice that we face. It is the same in Scotland, it will be the same in Wales and it will be the same for local authorities in England. We have made what we believe to have been a very strong case to Treasury to try to point out the differences between the Northern Ireland rating system and the council tax system in England and why we should not be subjected to the 10%. However, we have not succeeded in that.

Mr Girvan: On that basis, we are not looking at like for like, because the council tax in England contains an awful lot more —

Mr McClure: That is exactly right. We did not make the case on the basis that Northern Ireland is a difficult case or that our need is greater; we made it on the basis that, behind all those reforms, is the localisation agenda. We have already localised most of that stuff, so we made what we believe to be a very strong case to Treasury.

Mr Girvan: I take it that those discussions to Treasury have been exhausted?

Mr McClure: Yes.

Mr Girvan: So, it is a given that we will have that 10% cut.

You mentioned the date in September for those who will migrate to universal credit as new applicants, or whatever you might want to call them. What will be the impact on them?

Mr McClure: The September date relates to LPS and IT suppliers. It will have to redesign its IT to work in a universal credit world.

Mr Andrew McAvoy (Department of Finance and Personnel): It is a cut-off date.

Mr McClure: It is the cut-off date for it to be able to make the necessary changes. With regard to the April date, anybody who makes a fresh claim for rate rebate will not have the current passports that are available through social security: jobseeker's allowance; income-related jobseeker's allowance; and, likewise, ESA. None of the others will be available for new claimants because they will go straight onto universal credit. So, we have got to devise a workable and sensible way to use the information on universal credit so that people do not have to fill out new forms and provide further evidence in support of claims for rates support. We think that is unnecessary and also disproportionate given that the average amount of support is £500 a year. I do not see why people should have to go through the mill to claim that sort of support.

Mr Girvan: You referred to a two-year support programme. I am just wondering about that because I understand that we will not bring that forward until April 2014. You mentioned that we would probably subsidise — if I can put it that way — the two-year support programme from the Northern Ireland block grant or whatever we could raise locally for two years.

Mr McClure: It is for up to two years, but the situation that we are faced with is that we will have to modify the current system anyway because of the introduction of universal credit. It is a matter of whether we want to do that and make further changes at the same time or to do it in two bites. I am not sure whether that it the best way to do it. Again, the Department wants views on that. It has not made its mind up on anything at the moment. However, if you are asking me as an official, I can say that I think that it makes a lot of sense to do this from April 2014.

Mr Girvan: So, the only changes that we can make would be in relation to the passported benefits — as we want to call it — and the bureaucracy associated with additional form-filling to passport into receiving the housing benefit aspect or the rates relief programme. I wonder whether, as a devolved Government, we could look into how that could be streamlined as opposed to another plethora of bureaucracy and form-filling.

Mr McClure: After April 2014, we will not be able to exactly replicate for new claims in the current system because universal credit will sweep away the plethora of passported benefits that we have used for many years. So, we will have to modify the scheme.

Mr Girvan: My concern is that, if an elderly couple are in receipt of housing benefit — I am trying to link the two here for very good reason — and they live in a three-bedroom house, which is deemed to be over what they require — they need only a one-bedroom house — would they receive only a portion of their rates relief as they would if they were receiving housing benefit for the proportionate size of a house that they require? I am thinking of a number of elderly people who are probably asset-rich but cash-poor, and who are living in a fairly decent family home and do not wish to move out of that home. Therefore, because of the change in the benefit system, they will get for only the proportion of the house. They might own their house outright and, therefore, no mortgage is being paid on it and, therefore, no housing benefit is being paid, other than that they may be in receipt of tax credits and, as a consequence, be eligible for some component of rate relief. They may make a calculation that, instead of paying the full rates of, say, £800 a year, they are really going to get only £200 a year on this. I am wondering whether that has been thought about or mentioned.

Mr McClure: We have thought of it, although no minds have been made up. It is a policy option. I am not sure that it is one that we would particularly favour, given the difficulties with people downsizing and given the character of the Northern Ireland housing stock, particularly in the social rented sector where three-bedroom houses seem to predominate. It is very difficult. Are people expected to move into the private rented sector at probably an additional cost? I can see reasons why you would not want to carry that principle through to the rating system.

Mr Girvan: Are we going to be allowed the flexibility to make that decision through rate support?

Mr McClure: Yes, you would have that flexibility.

Mr Cree: You mentioned the two years, Brian. As I understand it, it is really only one year. We should be operational by April 2014. The second year is just a maybe at this stage. Is that what you are saying?

Mr McClure: Yes, that is a fair way of putting it.

Mr Cree: There is no doubt that it is a complex issue. You mentioned all those benefits. Of course, the difficulty with those benefits is that not all of them apply. If you are on jobseeker's allowance, you are not getting ESA and vice versa. When it happens, it will be quite black and white — it has to be quite black and white. Therefore, the rates system must be geared into that and the passporting cannot be as it was. The system will be completely different. I am a little bit uneasy about going to consultation twice. Although I can see your logic, people's response to consultations are not good anyway. Consultation fatigue sets in, and the second one may not be as helpful as you would hope that it would be. Is there any chance of getting it right first time? You mentioned the Scottish example, but that is not much use because social security is not a devolved issue for them, therefore, they are meeting a different issue. They have it easier than we have.

Mr McClure: It is, I agree, a slightly different context. The main ambition of this preliminary consultation is to set out some guiding principles for designing a scheme. Because of that, we cannot, in this particular consultation, give illustrative impacts on particular household types. I do not think you can make any changes to a system of rate rebate until you are able to do that. For that reason, I think that we need to establish the guiding principles first, and then have options for delivering on those guiding principles. That is the approach that we are taking. We have given a lot of thought to this, and I do not think that we could do just a one-stage consultation on it. Some of the questions are so big that we need to address them first before we can move on to the second stage, where we say, "We are going to do this and protect these people, and maybe not protect these other people. Here is the sort of scheme that we think is best". We could then present options and outline the sort of scheme that could deliver on those guiding principles.

Mr Cree: I take your point. Do you also accept that the response to the preliminary consultation may not be truly representative?

Mr McClure: It may not be, but —

Mr Cree: Yet you are going to build on it?

Mr McClure: I would say that NICVA is very anxious to engage on this issue, and we are very keen for it to engage. It acts as an umbrella group for most of the advice sector organisations and relevant voluntary organisations in Northern Ireland. That is the approach we will take. I fully accept what you say about fatigue, but this is quite a wide impact policy. Rate rebate currently helps the 220,000 households in Northern Ireland that are least able to pay rates. Because it is such a big pool, I do not think that we will get the same consultation fatigue that we have had in more discrete areas. We will get the steer that we need from consultation. Through using NICVA, the Consumer Council and various umbrella organisations, we think that they will help shape where we go from this. This is an Executive issue and a cross-cutting one. It is very high-impact in relation to the number of people affected. It is important that we get a healthy level of response to this. Using those organisations, I think we will be able to do that. We may well be disappointed in the response that we get from individual households.

Mr Cree: There is one key sector there: the owner-occupier, the senior citizen who is affected. That sector is hard to reach. There is no representative body there.

Mr McClure: There is Age NI, which represents the sector quite well. There is also the Age Sector Platform. So there are active representative groups, and there are other groups representing ratepayers, such as those involved with the Fair Rates Campaign.

Mr Cree: I believe that there is a big chunk of the sector that is outside all of that. There are people who quietly get on with things and struggle to try to make ends meet.

Mr McClure: I would imagine that, in any scheme that we end up with, those who are least able to pay will continue to be protected. There may well be marginal changes. The hard-to-reach groups tend to be those which are most disadvantaged. I think that the most disadvantaged will continue to be protected. I am not prejudging the consultation, but it seems a fairly safe bet to me that that is what will come out of the consultation.

Mr Cree: Thanks, Brian.

The Chairperson: Thank you very much for that, Brian. We will obviously get to the consultation and meet with the likes of NICVA and others in due course. You provided a very good paper, but it would be useful if you could give us a breakdown of the groups that this is going to affect, such as pensioners, etc, and quantify that in cost for each section.

The option of a new IT system is mentioned in the paper. How much would that cost? I ask that so that we can get a clear picture of the cost implications of going down one route, rather than another, or what the cost implications are of facilitating groups x, y or z.

Mr McClure: We do not have a complete picture on those two very important issues, but we can brief the Committee on where we are with it. As I said, we are using the analytical services unit in DSD to do some of the impact assessments for us. That work is ongoing, but we have some information already that we can provide to the Committee. LPS and the Housing Executive are engaging with their IT suppliers on the issues of delivery costs and IT costs, and we have meetings arranged with them. We can advise the Committee and give you a range of costs.

The Chairperson: If there is a not a full picture yet, it would perhaps be best to wait until we get that. That would be the most appropriate time.

Mr McClure: We want to come back from time to time to tell the Committee where we are rather than tying everything up in a bow after the consultation. I want to come back a couple of times, hopefully in March.

Mr McAvoy: It will maybe be about 20 March. We spoke to the departmental Assembly liaison officer about organising that for just prior to the Easter recess. We will let you know how we are getting on.

The Chairperson: That would be good. Thanks, Brian and Andrew.