Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Welfare Reform, Rate Rebate Replacement Arrangements: Stakeholder Briefing

17 April 2013

NORTHERN IRELAND ASSEMBLY

Committee for Finance and Personnel

Welfare Reform, Rate Rebate Replacement Arrangements: Stakeholder Briefing

17 April 2013

Members present for all or part of the proceedings:
Mr Daithí McKay (Chairperson)
Mr Dominic Bradley (Deputy Chairperson)
Mrs Judith Cochrane
Mr Leslie Cree
Ms Megan Fearon
Mr Paul Girvan
Mr John McCallister
Mr David McIlveen
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

Mr Kevin Higgins	Advice NI
Dr Rose Henderson	Citizens Advice
Ms Karen Hall	Disability Action
Mr Les Allamby	Law Centre NI
Mr Seamus McAleavey	Northern Ireland Council for Voluntary Action

The Chairperson: I welcome to the meeting Seamus McAleavey from the Northern Ireland Council for Voluntary Action (NICVA); Kevin Higgins, who represents Advice NI; Rose Henderson from Citizens Advice; Les Allamby from the Law Centre; and Karen Hall from Disability Action. Who wants to kick us off? Seamus?

Mr Seamus McAleavey (Northern Ireland Council for Voluntary Action): Thank you very much, Chair, for the invitation to come to the Committee to talk to you about this issue. We have a few opening remarks to make, focusing on a couple of the issues. We would then be very happy to take the Committee's questions.

From NICVA's point of view, we are very happy that the Executive have given space for proper consideration of this issue by meeting the commitments on rate relief for the next year. We have already engaged with the Department of Finance and Personnel (DFP) during pre-consultation on the issue and drawn together community and voluntary groups in Northern Ireland to start to consider the implications of rate relief and what is likely to happen in Northern Ireland.

We think that it is clearly a chance to do something different. Rate relief has been devolved to the block, albeit with a 10% reduction, and we realise how difficult that is. From our point of view, we would like to see progressive policy, in that people on the lowest income should receive the most help. The other big area of principle is that we would not agree with any idea that everyone should pay something, and that is linked to the former. People on the lowest income will find it difficult. So, in principle, we would go against the notion of everybody having to pay something, even a small amount; it should depend on their income. We think that, in practice, it has caused problems when that has been tried before. Chasing very small amounts of money is a huge administrative burden and a large waste of money.

I will pass over to Karen, and then Rose, Kevin and Les, who will tell you the key points that we have.

Ms Karen Hall (Disability Action): Good morning. Based on the broad policy position that Seamus has outlined, and having collectively looked at the non-means-tested elements in the consultation document, we believe that most of those elements should be packaged up and brought back into the general moneys available for whatever the scheme is. The exception to that would be the disabled persons allowance (DPA). On the policy, we have agreed that the DPA scheme should continue in some format, based on the premise that a person with a disability or a family with a disabled child should not be disadvantaged if they require an adaptation that would have an impact on the rateable value of the home; for example, an extra bedroom, bathroom or space for a therapy room. The policy position links to the current healthcare reform and the policy objectives to make home the hub of care and that that type of assistance is maintained so that people can remain in their own home. We understand that some of the other schemes are meeting the needs of particular groups. We are not saying that the money saved could not be used in different ways to provide support. Kevin and Les will talk about that in a bit more detail.

I will pass over to Rose, who is going to talk about some of the schemes that were not really considered in the consultation document.

Dr Rose Henderson (Citizens Advice): Karen has talked about rate relief. I would like look at two discount schemes where savings might be able to be made. The first is the early payment discount scheme. You can get a 4% discount on your rates if you pay them in full by the beginning of May. The scheme costs the Department £4 million a year. Obviously, that is of benefit only to people who have accessible savings amounting to their full year's rates. So it is, in effect, a subsidy to people with available capital.

The second scheme is what is called the landlord's allowance. Landlords who are responsible for paying the rates on their rental properties can get a discount on their rates bill of between 7·5% and 12·5%. There are landlords who have a mandatory responsibility to pay the rates on behalf of their tenants. They get the 7·5% discount. Those landlords who enter into a voluntary liability agreement get 12·5% off. The allowance to private landlords costs the Department £3 million, I believe. Of course, there is no onus on the landlords to pass those savings onto their tenants.

The Department has just issued a consultation on rates liability in the landlord sector, and proposes standardising the discounts given to both sets of landlords at 10%, which would deliver a small saving to the Department. We wonder whether costs could be reduced further there and savings made could be put towards closing the funding gap in the rate rebate scheme.

Mr Kevin Higgins (Advice NI): Hello everyone. As Seamus said, we acknowledge and welcome the Executive's intention to maintain arrangements for this year and potentially for next year. That is very important, and it will give a breathing space. A great deal of upheaval is happening at the moment with welfare reform and the impact on benefit recipients and so on, and also, on a wider scale, the review of public administration (RPA) developments aiming towards 2015. I know that there is a great deal of work being done at a local level to try to ensure that that happens and that we get buy-in to the new RPA arrangements. People associate rates with locally delivered services as well as those on a regional basis, so it is about getting that support right so that that is not jeopardised or undermined in any way.

We believe that the period of a year or possibly two years should be used to reflect on and develop support and delivery systems that target need; that are based on ability to pay; that, very importantly, maximise uptake so that people who are entitled to the support will avail themselves of it; and that, of course, are efficient and sustainable in terms of the delivery. A key point that we would make at this stage is that nothing should be ring-fenced or off the table. All of that should be available and not ring-fenced at this stage.

Ultimately, in Northern Ireland, we are in a unique position, in that we have the administration of social security and the administration of rates sitting side by side. In GB, as you know, social security sits centrally with the Department for Work and Pensions (DWP), council tax is going out to the local authorities, and housing benefit is coming back from local authorities to the centre through welfare reform and the way in which universal credit is going to work. So, in some ways, we have a unique opportunity to develop support and delivery systems that are aligned and streamlined and actually quite efficient. We may also have the potential — trying to be very positive about it — to develop a product that local authorities in GB may be interested in, if we can align what we are going to be doing on welfare reform, because the two things sit side by side. Those are the points I would like to make. Thank you.

Mr Les Allamby (Law Centre NI): My task is to look a little bit more long-term. I think that we accept that there is a significant challenge here for the Department and the Northern Ireland Executive. There is quite a considerable amount of money that, effectively — whatever anyone's view on parity — will sit outside of the provision of parity. Rate rebates is a very good example. Council tax benefit has been devolved to local authorities for their own schemes in Britain. We are going to have a son or daughter of social fund. We have passport benefits such as free school meals, and we are going to have to decide what to do with those. That all amounts to a very considerable sum of money that we have a great deal of autonomy to decide how to spend. It is important that it is spent wisely. In our view, given the Programme for Government's commitment to tackling disadvantage, it is important that rate rebates and the other schemes I have mentioned are effectively targeted at those on the lowest incomes. That is one of the principles that is important to us.

It seems to us that you have three phases, which I will call short term, interim and long term. The short term is where we are now. It is the "as is". The only question is how long the "as is" will apply. We suspect that it will go beyond this year and possibly into next year. Brian may be able to tell us otherwise. The interim is quite a difficult one for the Department, because you will have universal credit (UC) running alongside the existing tax credits, income support and income-related jobseeker's allowance (JSA) and employment support allowance schemes. In other words, as you migrate — to use the technical term — people across, you will have 10% on UC and 90% outside it, then 20% on it and 80% outside it, and so on. That phase will take us from 2014 to 2017, based on the current timetable. From 2017 onwards, all working-age claimants, both in and out of work, will be on universal credit. We will then have to develop an answer in respect of universal credit.

The issue of older people and pension credit is, of course, not lost on us. The new pension arrangements have been brought forward to 2016. The new single state pension of £140, based on current figures, is designed to ensure that, over time, fewer people are means-tested on pension credit. That has some implications for passporting as well, and it is important to keep that in mind.

We start from a position where a quarter of all households get help with their rates, a fifth of all households get full help, and the other 5% of the 20% to 25% receive partial help. We currently passport 70% of claimants to full help. That has the great advantage of simplicity, because the Department has to means-test relatively small numbers of people. However, the future will not be so straightforward for either working-age or older claimants. Clearly, there will be less obvious, easy passports for them.

At the moment, a fairly high-level committee in Britain is looking at the question of passporting. DFP's paper, we feel, rather optimistically states that it hopes there will be some solutions coming from that committee. However, my understanding is that that committee is struggling and that it has a short-term, interim and long-term ambition. The long-term ambition certainly will not kick in until at least 2015-16 at the earliest. So, we will not get a solution arriving from across the Irish Sea any time soon. This will have to be one of those areas where we come up with our own solutions.

It is probably worth very quickly saying something about what they have done on passporting in Britain to date. They have two types of passport for universal credit, and those are for schemes that they could not avoid making a decision on. Funeral payments and Sure Start maternity grants, which is a maternity payment, are paid to everybody on universal credit. That has meant spending a bit more money, but it is very simple. There is no take-up issue, and you can clearly control expenditure, as people only get help with their first child and, obviously, a death in the family. Cold weather payments, which is another scheme that they could not avoid coming up with some sort of passport for, has a fiscally neutral response. That means that the only people entitled to it are those on universal credit who are not in any form of employment, or who are in receipt of the incapable of work element of universal credit, or who have a disabled child or a child under five. So, it is swings and roundabouts in respect of the current scheme and the new one. Some people will gain and some will lose, but it will not cost any more money. So, DWP's original ambition of universal credit being a simple passporting scheme that everybody would understand is already not happening in practice.

That brings us on to the point about where we go with this and where we see all this emerging. In an ideal world, any scheme that we devise should probably passport as many people as possible. However, the difficulty we see is a trade-off between, on the one hand, a scheme that is simple to administer and readily understandable and, on the other hand, the cost. The more people you passport, the simpler it is administratively, but the scheme will probably be more expensive. In theory, if you passported everyone on universal credit, it would be very straightforward but very expensive. We do not know how expensive, and it would probably include giving rate rebates to people on reasonable incomes. That may be a perfectly credible thing to do, but do we want to spend that money in that way?

You can then start to look at other kinds of passporting in universal credit. Our view at the moment is that we need to do the kind of modelling to look at a whole variety of options. You could simply passport people who are on universal credit but do not work. That would be much cheaper — it would save money on the current rate rebate scheme — but it would not really be fair. Lots of people in work on low incomes ought to have help with their rates. We need to model almost everything from universal credit and out of work, universal credit and working under a certain number of hours, and universal credit and your earnings threshold, with the earnings thresholds being set at various levels. You could model universal credit and people with disabilities, and people with children under a certain age. We need to do a lot of modelling to look at how much, in effect, it would cost and the proportion of the population that you would passport.

It looks to us on first sight that passporting everybody and not having a means-tested scheme is going to be very difficult. You are going to be left with some kind of means-tested scheme above and beyond passports for fairness. The Institute for Fiscal Studies (IFS), in the report that the Office of the First Minister and deputy First Minister (OFMDFM) published recently, has started to do some work on various schemes and what they would look like. Our only comment on that is that it is rather hard to be definitive, because you need to look at the underlying assumptions. One that we think is correct is that it decided that you should look at the baseline including the supplementary schemes. I am not sure whether that is all the supplementary schemes or some of them, but it makes the point in the report that keeping all the supplementary schemes “as is” does not make administrative sense in rate rebate terms, never mind the question of whether all those schemes are progressive.

Some of the solutions that IFS put forward have an outcome where the marginal tax rate is more than 100%. In other words, if you go into work, you are worse off. Given that universal credit is designed to avoid that situation, we really need to avoid any solution that leaves people worse off in work than out of work. The marginal tax rates of going into work from benefit will be better under universal credit than in the current system, but they are still going to be very high. Therefore, I am afraid that, today, we cannot come up with a one-bound-and-you-are-free solution. I am pretty sure that the Department, as much as it would like to, will not be able to do that either. All that we can do is say that there are certain principles. The scheme must be progressive. Ideally, we want to passport as many people as possible. It must be fair and easy to administer. All of that is quite easy to say. We know that the reality, of course, is that it is much harder to achieve. Therefore, a lot of work needs to be done over the next 12 months to look at how you reach the right trade-offs that ensure that the Programme for Government's targeting and tackling disadvantage is kept as the fundamental principle that we are looking at.

The Chairperson: Thank you. I suppose that the problem as well is that we have only about four months until September to get systems in place and to be prepared for next year. Is that a big concern? There is a lot of detail to be looked into. NICVA previously raised with the Department the issue of there being an incomplete set of data. I do not know whether that has been addressed, but do you feel that there needs to be a lot more information out there to consider before we sign off on the proposal?

Mr McAleavey: The critical point for us, as Les outlined, is that, in consultations in which we in the voluntary and community sector engage with government, we quite often need more information to be able to comment well. Les's key point is that we believe that a whole set of modelling needs to be done, which would then give you the information to make the best possible choices. As Les said, it is all about trade-offs. If we go into this half-cocked, we will probably come out with a scheme that will not necessarily be fit for purpose. The modelling would show you the likely impact of different types of scheme that you could put in place, and then you have a choice to go for what the Executive and Assembly believe are the best options.

The Chairperson: So, what in your view does the Department need to do in the next four months? Are the plans that it has outlined sufficient?

Mr McAleavey: The Department may be doing this.

Mr Allamby: Brian will be able to tell you better than we will. I understand that the Department is doing quite a bit of modelling, and clearly the Institute for Fiscal Studies work, which was done for OFMDFM, is a starting point for that. We need to see the outcomes of that modelling.

If you want my candid assessment, I will be very surprised if we achieve a radical shift of having a new scheme in place by 2014-15. That does not sound realistic to me. We may well have the bones of a solution by 2014-15, but if you are asking whether I think that we will be implementing an alternative rate-rebate scheme with everything done and dusted by April 2014, I do not think that that sounds realistic. The consultation document is the first part of a two-stage process, and, in fairness, the Department has been very open and frank about that. We have another stage of consultation to go through, where we will doubtless get a more detailed look at what the options are with some of the modelling and the IFS work. By the time we get through that process, we will pretty much be into September.

Even though the idea is that we will have a new scheme by 2014-15, I am sure that there are ways we could tweak the existing scheme. We looked at supplementary schemes, as Rose said. Although it is quite administratively convenient to pay your rates in one go, the people who can avail themselves of that scheme are almost certainly people who are better off financially. That is a £4 million subsidy to those who are, generally speaking, better off. There may well be people on a low income who can afford to pay their rates in one go, but they are a minority. The capital allowance scheme, the capping of rates at £400,000 a year, was originally designed to help the asset-rich and cash-poor, but we do not think that the vast majority of people who benefit from that scheme are the less well off financially. We think that that money should again be used in a much more progressive way. I think that we need to give the Department some financial flexibility around looking at those schemes.

I think that the lone pensioner allowance scheme is probably more progressive than some of the others. We are not suggesting that, by taking that away, you may not use some of that money in other ways to help households, but to say that these schemes are sacrosanct now would probably tie the Department in ways that will be really unhelpful in a longer-term scheme. We should be using that money flexibly in order to look at what is the best way of managing this. That is apart from the disabled persons allowance scheme for the reasons we have outlined. That scheme has a real incentive for people to upgrade their home because of their disability needs, and there is a clear policy imperative there in terms of disability and accessibility of homes. We think that the money from the other schemes should be given to the Department for flexible use and purposes.

The Chairperson: Do you have an agreed view on the low income rate relief scheme? I was looking for it in the consultation paper. Is there a general view on it?

Mr Allamby: I will see if anyone nods.

Ms Hall: Generally, when we were talking about it, we looked at all the non-means-tested elements, as I said. We need to look at policy modelling to see where it will have the biggest impact. That is not to say that you will not have some sort of scheme that will reach those types of people, but policy modelling has to be done to see where the impact will be to make sure that we are using what is available in the best possible way. That is essentially what we are saying.

The Chairperson: OK.

Mr Weir: Thank you for your evidence. There is a lot of complexity around this. As you said, more information needs to be gained on the range of options. There are pluses and minuses, and part of the problem is that you are looking at trade-offs around simplicity. There is no point in putting particular schemes in place that will cost more financially than they will gain. It is about trying to weigh that up with a sense of fairness. In addition, people will come up with different conclusions on what they regard as being fair on particular schemes. Quite often, when people see a scheme that is of benefit to themselves or the group that they are involved in, they regard it as being fair, and they regard a scheme that financially disadvantages them as being unfair. Perhaps that is human nature.

I do not think that anyone will particularly disagree with you about retaining the support side of the disability allowance. You indicated that you believe that there should be more flexibility and that, therefore, you would remove specific provisions from the pensioner side of it but that you may well see those being reapplied in a different way. Can you expand on how you see that financial support for pensioners? Where the waters get slightly muddied is that one of the arguments about lone pensioner allowance is that it is a discrete benefit that is relatively easy to administer whereas means-testing can create problems. Also, part of the policy initiative behind a lone pensioner benefit is that, just as rates are approximately half to subsidise what is happening at your local council while half goes into a more central pot to pay for things out of the local regional rate, there is an argument that a household with a lone pensioner will avail themselves massively less proportionately of whatever services are there. They are much less likely to use the leisure facilities. A lone-pensioner household will generate a lot less waste than other households, so there is an element that reflects that. Can you outline how you see financial support for pensioners being covered if you were to remove a lone pensioner or, indeed, any other pensioner support from the system?

Mr Allamby: The current lone pensioner scheme clearly only benefits those lone pensioners who are not already passported because they are on pension credit. So, one of the things that we would want to look at is the proportion of people that we want to passport onto any new scheme. We might want to use the money saved here to passport a higher proportion of pensioner households.

Mr Weir: From the point of view of getting statistics, what do you assess would be the level of money that would be saved by removal of the lone pensioner scheme?

Mr Allamby: It is in the Department's —

Ms Hall: It is £4·5 million per annum.

Mr Allamby: So, you might want to use that £4·5 million in a different way to passport pensioner households. You might decide to look at lone pensioner households alone, or you might decide to look at passporting older people generally at lower incomes. If you want to target single pensioners as a group, there is an argument, which you made very cogently, on the level of use of services and so on. That is one argument, and another one is back to the ability to pay and whether you do this based on household income so that people with a higher income have to make a higher contribution, based on their ability to pay. There are always all sorts of issues. A household on one income with a lot of ill-health will have higher heating bills etc over a household with a lower income. So, there is not a perfect model for this. We do not have an answer to that, but what we are saying is that, rather than ring-fencing that £4·5 million, you are better saying to the Department that that £4·5 million is for it to look at in devising this scheme. It is the same, effectively, for the other schemes, bar the disabled persons allowance. That probably gives you a great deal more flexibility to come up with sensible solutions.

The other thing is that, if you come up with a solution leaving all of those schemes there, you may well have to devise a couple of other schemes anyway, and all you will do is add, frankly, to the complexity of the whole outcome of this. That is an issue, too. One of the things that stops people claiming, particularly means-tested benefits, when they are not passported, is the complexity of the schemes: no one understands them. I understand that a couple of the supplementary schemes had the virtues that you do not have to claim them by going through a complex means test and there is no stigma attached. If you are a lone pensioner, you automatically get it if you are above a certain age. However, it is still a very specific — *[Interruption.]*

Mr Weir: I remain unconvinced about the removal of lone pensioner allowance.

Mr McAleavey: Our main point is that we should judge it after the evidence comes out rather than before.

Mr Weir: I want to touch on another issue. The administrative simplicity of the current system has been mentioned. There could be a debate on the precise amount, but there is an issue with the abolition of the discount for people who pay in one go at the start. In my experience, the focus has been purely on those who can afford to pay, but that is not necessarily my reading of it. In a lot of cases, it is more that people perhaps have a different attitude to money. Some people who get a bill in and feel that the responsible thing to do is to pay that immediately, whereas other people will long-finger bills as long as possible. I hasten to add, just in case any accusations get thrown about, that I regard myself as being in the first category rather than the second. Leaving that aside, from an administrative point of view, there is surely a massive advantage in getting money in early. Getting it in one lump sum is better from the point of view of cash flow into government and it is quicker.

Part of the problem, as the Minister indicated, is that there is a major problem at the moment, and there has been for a lot of years, with the amount of debt and money owed for rates. That breaks down into one of two categories. A lot of people have real difficulty paying and are in the "can't pay" category or, at least, will need a lot of help to pay. It is important that the Department and government help those people. However, a lot of people either will not pay or will drag their heels and pay at the last possible moment. If you take away all discount for paying promptly, on time and in a one-off sum, that will have an overall effect on the system, leaving aside whatever administrative issues are there. Effectively, I suspect that you will increase the burden at the other end and create greater levels of debts. So, what would be the effect of the abolition of discount for those who pay promptly and in a one-off payment? I appreciate the argument about fairness, but, from a financial point of view, government could find that it costs more money to abolish that. Surely, we should ultimately look at, from a government perspective, getting in the most amount of money so that it can be used in other ways. That should be the key element rather than what is seen to be "fair".

Mr McAleavey: It is interesting that utility companies and many private sector companies will prefer to get everyone on to a monthly direct debit payment. That is fairly standard nowadays, and many of them incentivise you to do that. They get their regular payment, and that takes care of some of the issues that you mentioned, Peter, about people making their payments. In many cases, direct debit is the preferred way. It also delivers income to the organisation over the year rather than in one lump.

Mr Weir: Often, companies will not give an incentive to pay early but will do the opposite, which is that if people pay late, there will be interest payments and levels of debt arising from that. So, there is a differentiation between those who pay at one time and those who pay at another. It is maybe simply a case of flipping it around in a different way.

Dr Henderson: I was going to make the point about direct debit, but it is a question of doing an evaluation of the cost-effectiveness of the 4% discount, and the direct debit option is there already for paying rates.

Mr Allamby: Nobody at this table is suggesting that if somebody wants to pay his or her rates bill in one go at the start of the financial year, they should be prevented from doing so; however, we do not think that they should be given a financial discount for doing that. If it suits someone, either philosophically or because they have the money and want to do it in that way, that is fine. However, we do not think that they should get a 4% discount.

Mr Weir: By the same token, do you think that some sort of penalty should be attached when people pay rates late?

Mr Allamby: You have outlined the almost impossible task: determining the "can't payers" from the "won't payers" and divining who is genuinely trying to pay their rates bill as opposed to who is not. My understanding is that the early-payment scheme is not massively popular in DFP or Land and Property Services (LPS) administratively. It is not one of those schemes that LPS says is great for it. Ideally, LPS would prefer a direct-debit or standing-order approach. It is not something that Land and Property Services, if you like, is driving because it meets its administrative needs. It is one of those schemes from a different era and has almost carried on without being closely scrutinised. The £4 million that it costs could be spent —

Mr Weir: Do you have an estimate of the number of people whom that would affect directly? Obviously, there would be savings of £4 million. I suppose that some would be directed to the Department. Do you have an indication of how many ratepayers that involves?

Mr Allamby: Nineteen per cent of domestic ratepayers would be affected — almost one fifth of people pay in one go. You are right: we have no idea what the proportion would be if they did not get the discount — whether it would still be 19% or a lot less.

The Chairperson: What exactly is the discount?

Ms Hall: Four per cent.

Mr Weir: I do not know whether that is an admission that you do not pay your rates on time. *[Laughter.]*

Mr D Bradley: Good morning, everybody. The 1·1% option that you have chosen seems sensible, although it involves the removal of the other rate reliefs that we have discussed. Les mentioned the maximum value capital relief for properties of £400,000. Some years ago, we discussed that, quite often, that applies to older people who have properties, the rateable value of which is quite high but the actual value of which may not be so high. Moreover, they do not have as much cash as people might assume. Therefore, they are vulnerable. The same might also apply to people in other categories who are not passported. By removing those reliefs in order to maintain the current system, are we isolating vulnerable people in the non-passported groups who will not be helped by the system?

Mr Allamby: If we are, the numbers are tiny. There was a time when property prices had risen to such an extent whereby the proportion of the population who owned a home that was worth more than £400,000 was probably significant. However, I suspect that, with current house prices and the average price of a home, the proportion of the population that own homes that are worth more than £400,000 is considerably smaller.

Mr D Bradley: Not necessarily, because those properties have not been revalued by the rating system.

Mr Allamby: Sure.

Mr D Bradley: Departmental officials tell us that a revaluation of domestic rates will not necessarily lead, in all cases, to a reduction of the rates bill for property owners.

Mr McAleavey: That is because the position is relative: the value of the property is used only to place us all on a scale, and then the rate is charged.

Mr D Bradley: They say that they have to bring in the same amount from the rating system.

Ms Hall: It is key to remember that we are saying, "Do the policy model to see where the impact is." The maximum capital value applies to about 5,000 people. We do not know the breakdown of that 5,000, such as how many are older people. Therefore we need to do some modelling to see where we will have the greatest impact, because the absolute policy basis is to get to those who are in the most need when it comes to income. It may be that some of those people will come back through, but through another mechanism.

Mr D Bradley: That is what I was going to ask: is there any way we can rescue that group, which might otherwise be isolated?

Mr Allamby: I am not overly in favour of tossing a lifebelt to that group, and I will again explain why.

Mr D Bradley: If they are vulnerable, why not?

Mr Allamby: You are right: there is a significant number of pensioner households in that category. However, none of them is on, for example, pension credit, because there they would get no added value from being on it. If you are on an income that is low enough to get you pension credit, you do not need the maximum capital value scheme because you will continue to get a full rate rebate, whether the capital value of your home was assessed at £400,000 or £600,000.

If you did the modelling of the income of the households that are affected by this, I would be surprised if 1% never mind 5% were people on very low incomes. The vast majority of those who benefit from this scheme are on significant incomes. Therefore, it is a very poorly targeted scheme. So, if there is a vulnerable cohort — the 1%, 5% or whatever it may be — there will be a much better way of finding a focus or a target for that group. The scheme deals with a very small vulnerable group and offers another 95%-plus, who are not vulnerable at all financially, a subsidy, and that is not the right way to go.

Mr D Bradley: What about the low-income rate relief scheme? Would the people on that scheme be brought in?

Mr Allamby: Almost certainly. The Institute of Fiscal Studies modelling has made that assumption and added that money in its modelling of the supplementary low-income scheme. It has almost said, "It does not make sense to keep that scheme outside a new scheme." We can say, "Let's use that money in a way that effectively targets the same group of people but in a much more sensible way, given that we will have to do some reform." That group is a much better targeted group than those affected by the maximum capital allowance scheme. Therefore, I suspect that that group will be uppermost in the Department's mind.

Mr D Bradley: They are easier to reach, statistically anyway.

Mr Allamby: Yes.

Mr Higgins: To build on that point, these are difficult issues, and it is not a very positive conversation because it is within the sphere of cuts and reduced support. However, advice can play a key role. As Les said, if there is a sub-cohort where means-tested relief can be applicable, hopefully they can be shifted onto that. As for those who may lose out, whether they are on those schemes or LPA, you could be innovative and creative and offer them advice, information and support. Let us check out their circumstances. It could be that other entitlements are available to them that they have missed out on. We could try to make a virtue out of necessity and create positive outcomes in our thinking.

Mr D Bradley: I just want reassurance that no group will be left in a vulnerable position.

Mr McQuillan: Thanks for coming in, folks. The argument is a very interesting one.

In the consultation paper from the Department, the Rural Community Network — and I declare an interest, because my wife is very involved in the Rural Community Network — and Advice NI state that money could be moved away from the lone pensioner allowance, especially the amount that goes to wealthy lone pensioners. Can you define a wealthy lone pensioner?

Mr Higgins: I do not think that we used the word "wealthy" in our submission, but I take the point. Our starting point is trying to have a blank sheet of paper and acknowledging that it is a very difficult issue. We felt that one of the key principles of any future scheme was targeting need and ability to pay. There will be extremes, so take the extreme of, say, a millionaire lone pensioner. There may be none of them out there, but let us take it as an example for the sake of discussion. Within this conversation of having to make cuts and savings but keeping within the principles of ability to pay and targeting need, the remodelling that we suggest is that people who avail themselves of lone pensioner allowance possibly should not be getting it because they have the ability to pay. That is where we are coming from in asking whether we should ring-fence lone pensioner allowance or whether it would be more satisfactory to have a modelling arrangement, putting everything on the table and then coming up with schemes that effectively target need and the ability to pay and link to the collectability of rates and, hopefully, to rates arrears as well. Again, if you are providing support to, for the sake of argument, a millionaire lone pensioner, is that somehow, indirectly or directly, impacting on the huge issue of collectability of rates and the big issue of rates arrears?

Mr McQuillan: Some people that we would see as wealthy might be wealthy in assets, but when it comes to cash they may not have very much. I am afraid of missing out *[Inaudible.]* Have you looked at the cost of administrating the sort of system that you were talking about and how the Department would administrate it?

Mr Higgins: I come back to the point that we made in the paper. We are in a unique position. Again, this is perhaps a longer-term view. Social security is devolved and will sit alongside or parallel to the rates scheme, which is unlike any other part of Great Britain. There should be at least a review to explore. Any means-testing scheme can be complex and can become bureaucratic. In the worst-case scenario, you spend more money administering the scheme than the support that you are providing to the vulnerable people. With this unique opportunity of social security being devolved and rates sitting parallel, we think that there must be merit in exploring linking those two things up. If you are doing one assessment for universal credit in future, you can maximise the value of that assessment in the passporting support that can be made available to people, including rates support.

The Chairperson: I want to come back to the early repayments scheme. Do we have figures for who avails themselves of it? Obviously those on higher incomes are more likely to pay off early. You have that 4%, so if you are paying rates of, say, £2,000 a year, that is a saving in real terms of £80; whereas those who are least likely to do that will save only £32 if they are paying rates of £800 a year. Is there an option of looking at different bands, so you could have a higher percentage rate for those with lower-value homes, and they would have more incentive to pay it off early? I just wonder whether that has been looked at.

Mr McAleavey: Everything is a trade-off. The simpler you can make the administrative processes, the better. Most collectors prefer it to be done monthly. Land and Property Services and DFP can be asked what is the optimum way for them to receive it. On the point that Les was making earlier, trying to keep it as simple as possible is the key thing, but we do not have the figures to say what level of rate, or whether it is people paying £2,000 or more who are paying upfront.

Mr Allamby: I can see some attraction in the idea of giving a discount to those with lower rates because they are probably likely to be on a lower income. I suspect that the overwhelming majority of the 19% of the rate-paying population who pay it all in one go have higher rates bills. As soon as you try to do this by giving a bigger discount to those whose rates are £500 a year or less, you move into cliff-edge complexities. My rates are £510, so I would get only a 2% discount, but if my rates were £20 less, I would get a 4% discount. So, you immediately get into those kinds of scenarios. I wonder whether the time and energy spent on that is really worth what you would get out of it. If you want to pay your rates in one go, that is fine. If that suits you better and you would rather do that than worry about paying it at the post office 10 or 12 times a year or having a direct debit, that is fine. I just do not think that you should necessarily be given a financial advantage for paying in that way.

If it saved DFP £4 million a year in administrative costs, I could understand why it might want to do it, but that is not the driver. It is not that the scheme pays for itself because it saves DFP a significant proportion of money in administration. That is not what is driving this.

Mr Cree: I want to pick up that thread. There is another view on prompt payment. The reports that we have often use the term "wealthy lone pensioner", which is almost a stereotype. However, I know of many people who live in their old family home, which has a high value but which is of no real value to the person; they may have a small sum of money that is probably the result of their life savings. In one particular instance, I know that the amount was £3,000. It makes sense for that lady to pay her rates in one go, because she is getting no interest on her money in the bank anyway, and because the discount would pay her food bill for two weeks. That has to be taken on board.

The corollary is that that money is not just for administrative purposes in DFP. Credit balances are used to off-set loan charges, which are significant for the Departments. Therefore on two fronts, there is real value in encouraging prompt payment, and I do not think that you have fully appreciated that. My view is that it should remain.

I take it that you have seen the report from the Institute for Fiscal Studies. In my opinion, it makes one of the strongest points. It points out the dangers in having local tax support systems outside the universal credit system that is coming in and that that could undermine the real benefits that universal credit is meant to provide. I would appreciate your views on that.

Mr Allamby: I will take the second point first and then come back to your first point.

I am inclined to agree with the IFS position. What it means in practice is another thing. You could fully integrate this into universal credit in some way, which would presumably include doing some kind of deal across the water about using IT systems; we will have a UK-wide IT system for universal credit. If you wanted to integrate this completely, you would presumably have to have a conversation with the IT people about what it would cost.

The other option is to have a bespoke system locally that is not integrated in IT terms but which is still integrated in respect of how universal credit and our scheme work so that the aims of universal credit are replicated in our scheme. You have a number of administrative options to do that. You want a universal credit system that makes it worth your while to go out to work, which is what everybody wants — putting aside for a second the issue of whether there are jobs for everybody — and you want to make work pay. The last thing you want, therefore, is a scheme that says, "Work pays unless you happen to pay your rates", because that would undermine the scheme. We have to find a way in which the two dovetail. You could integrate it completely in some way through IT systems, etc. You could use the IT that universal credit gives you to deal with IT solutions locally. We could devise a scheme that starts from a set of principles that must be in tune with what happens with universal credit. However, we do not have much to play with. Universal credit starts on the basis of making work pay; if you are a non-taxpayer on universal credit and you find work, you will lose 65p of every pound that you earn. If you are a taxpayer, 76·2% will go. There are also issues about whether you are a single earner or a couple-earning household. What you add to that with a rates rebate will make it even worse; it will be 65% plus something or 76·2% plus something, depending on our rate rebate scheme. Therefore, we will still have very high rates of marginal tax. That sounds pretty grim, but it will still be better than the current system. That is a rather long-winded way of saying that that principle is really important — we agree with it — but that it is about how you implement it in practice. There are still some options about how you do that. It is not that there is only one way of doing it. We have to look at how we do that. You are absolutely right: there is no point in having universal credit with one set of principles and our rate rebate scheme going off in another direction.

I fall back on this again: if you are on the guarantee credit and so get passported to full-rate rebate help already, the early payment discount does not provide you with much help. Those on the lowest incomes do not really get the benefit of the early-payment scheme. There was a period in which the take-up of pension credit was relatively low. The work of Advice NI, Citizens Advice and the Department for Social Development has improved the take-up of pension credit considerably. The group of people who are falling out of the system and who were not getting pension credit, who were on very low incomes and who might have benefited from the early payment scheme if they had the money to do it, is diminishing all the time.

Mr Cree: It is, but there is a fair number who do not avail themselves of those benefits for a variety of reasons.

Mr Allamby: There is. You are back into the debate about whether that is an effectively focused scheme on low incomes. We think that it probably is not. That is the key for us. The £4 million should be used in another way that might help the same group of people whom you want to help, but you might then be able to target a greater proportion of the money on that group.

Dr Henderson: In our response, we suggested that it might be possible to base a new rate rebate scheme on the entitlement to the housing element of universal credit, as there will be a housing element to pension credit. We put forward that suggestion because it would then be quite like basing it on housing benefit.

The Chairperson: OK. Thank you very much. I am conscious that there is another consultation period, so we may decide to invite you back after it.