Northern Ireland Assembly

Committee for Finance and Personnel

OFFICIAL REPORT (Hansard)

Welfare Reform: Rate Rebate Replacement Arrangements (DFP Briefing)

11 September 2013

NORTHERN IRELAND ASSEMBLY

Committee for Finance and Personnel

Welfare Reform: Rate Rebate Replacement Arrangements (DFP Briefing)

11 September 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 Mitchel McLaughlin
Mr Adrian McQuillan
Mr Peter Weir

Witnesses:

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

The Chairperson: You are very welcome, Brian and Andrew, back, once again, to the Committee. Brian, do you want to give us a wee update before we go to questions?

Mr Brian McClure (Department of Finance and Personnel): I will. Thank you, Chair. I hope that you all had a good summer. For my part, I am glad the kids are back to school.

If the Committee does not mind, I will start by giving an overview of the background to the welfare reform consultation on rate rebate before moving on to the process that we are adopting to engage with people and then on to the wider options discussed in the consultation paper and some of the policy constraints we face.

I think that it is worth saying at the outset that the Northern Ireland Audit Office report on the universal credit programme was published last Thursday. A lot of media coverage followed about the problems with the delivery of universal credit, but that does not affect what we are doing here, for reasons that I will explain later. The publication of the Audit Office report last Thursday was significant, because the report indicated that there is some slippage in the delivery of the programme, which, I think, is worth mentioning. However, that does not affect the proposals that were out to consultation, as I will explain shortly.

The Committee will know from previous briefings that, under welfare reform, council tax benefit and rate rebate in Northern Ireland was localised, and expenditure was reduced by 10% from the same date — April 2013. So, some of this has already happened, and it is now taking effect. However, it is also necessary to make changes from April 2014 to ensure that rate support continues for the most vulnerable households. As I said, although there may appear to be some delay in the delivery of universal credit, we believe that it will come eventually, and we will have to ensure that whatever system of rate rebate we have in Northern Ireland can work alongside that so that people do not have to apply twice, and so that we do not have *[Inaudible.]* administrative costs associated with that as well.

For reasons of need and affordability, it is the Department's current view that mere entitlement to universal credit cannot be used as eligibility for rate rebate. Indeed, Department of Finance Personnel (DFP) figures, based on recent modelling, indicate that it would cost an extra £70 million a year if we were to use receipt of universal credit as a straightforward passport for rate support once universal credit reaches its steady state. That is because many more will receive universal credit than received the old legacy benefits such as income support, jobseeker's allowance, and so on — everything that we currently use to passport. It will also include people on small amounts of tax credit. So, it is our belief — the door is not fully closed on this — that mere entitlement to universal credit is not the way forward for reasons of affordability; as I say, it has a £70 million price tag.

Members may recall from previous briefings that the current rate rebate element of housing benefit helps around 220,000 of the poorest households in Northern Ireland by paying all or part of the rates that would otherwise be due. For those paying no rates, that support is normally equivalent to about £400 or £500 a year. So, the Committee will appreciate, as the Department does, the importance of this issue for ratepayers who are on a low income.

This is the second part of a two-stage public consultation. The first consultation sought views on some guiding principles that came down in favour of the broad retention of the current support framework, by more or less keeping the scheme for those 220,000 households running as it currently does. That is a very important and significant lesson from that consultation.

Funding and other guiding principles were informed by the consultation process. We are funding the shortfall through the removal of other rate support rather than cuts to general government expenditure. In other words, we would not pay for the shortfall fully through public expenditure. We got that very clear message from the consultation, and that is reflected in the Department's view for this second consultation.

The second consultation sets out more detailed proposals for a way forward and seeks views on the proposals included in the paper. As with the preliminary consultation, we are adopting a very proactive approach in order to elicit as many views as possible. The consultation began —

Mr Andrew McAvoy (Department of Finance and Personnel): On 22 July.

Mr McClure: — on 22 July and will run right through to until, I think, 11 October. We have written to 21 key groups and invited them to meetings to discuss their proposals. We have also written to 100 others to advise them of the consultation. All MLAs and party leaders have been written to, and an advert has been placed in the three main newspapers. Copies of the paper have also been placed in the Assembly Library. The paper is also available on the rating policy division website and from the DFP consultation zone.

Since the paper was issued and as a response to my letter to engage with key organisations, I, along with some of my staff, have met representatives from the Northern Ireland Council for Voluntary Action (NICVA) to discuss the detail of the seminar that NICVA agreed to hold for us. That seminar took place yesterday, and a broad spectrum of key interest groups attended to facilitate discussion on rate rebate. We see that as, almost, starting off the process of informing them. What we want to do is have bilateral meetings with each of those groups over the coming weeks and to provide them with the further analysis that they requested at that seminar. We will provide all that to the Committee as well, as and when we get it.

We have also had bilateral meetings with representatives from the Fair Rates Campaign, the Law Centre and the Irish Congress of Trade Unions, and we have arranged to meet representatives from Disability Action. We also hope to meet more of the key stakeholders over the coming weeks. So, it is a very busy time for us. We need people's help to inform us on how we can get rate rebate to work in a universal-credit world and are keen to seek views on the proposal to remove the low-income relief.

The main proposals put forward are to adopt a two-phase approach to implementation due to wider uncertainties around the universal credit roll-out and delivery. Phase 1 involves retaining, as I mentioned, the main scheme that protects 220,000 households, but that will become a DFP scheme. That is currently part of housing benefit, but we will take it out of social security legislation and put it into rates legislation.

We will integrate universal credit income with the current means test for rate rebates so that we can, more or less, keep the coverage of the existing scheme. The other proposal is to fund some of the shortfall through the removal of the low-income rate relief scheme.

Phase 2 will start when universal credit reaches a steady state; in other words, when it becomes the dominant social security payment. That could be two or three years away or slightly longer. At that stage, however, we will have to go out to consultation again because we will have to fully redesign rate rebate. We are concentrating on the phase 1 approach at the moment, which is, more or less, to keep the existing scheme, remove the top-up scheme and make the scheme work with universal credit. That is what this consultation is about.

Although removal of the low-income rate relief scheme is only a part of that, I will talk a little about the policy rationale behind that because, clearly, anybody losing entitlement to any support is a major issue and will be a major issue for the Committee.

The scheme costs in the region of £6·7 million a year. That would make up about half of the 10% shortfall that we are talking about. It has a status as a top-up scheme. Somebody referred to it yesterday as a bolt-on scheme, and that is almost a better description. It sits above housing benefit. It was introduced under direct rule to address shortcomings in the rating system whereby there were virtually no reliefs beyond those available through housing benefit.

It was particularly targeted at asset-rich, income-poor households, some of which faced major increases under the capital value system that was being introduced under direct rule. At that stage, you will recall, it was an open-ended system. There was no cap. Since then we have had the cap and the lone pensioner allowance, so the context is slightly different.

The Department is not saying that the scheme is not a good scheme. We are just saying that, in terms of having to deal with priorities and protect the most vulnerable in Northern Ireland, it is necessary to look critically at whether we can still afford to have the scheme.

That is the policy context and why the Department is putting that forward. In doing that, the Department is urging people to look dispassionately at the whole issue and take a close look at some of the examples that we have quoted. We are more than happy to provide more examples of how this bolt-on scheme works and who it will affect. Some of the analysis is in our consultation paper.

It is appreciated that some individuals will lose out as a consequence of this, but we think it is necessary to help to fund the shortfall to allow the existing coverage of the main scheme to continue. The consultation includes an integrated impact assessment and identifies the likely impact of the proposed policy changes. That includes an equality impact assessment of section 75 groups, a rural-proofing assessment and a targeting social need assessment.

At the moment, there are no significant findings on the integrated impact assessment, but we always view these as preliminary or initial estimates. Integrated impact assessments are not complete until people have had a chance to give their views on them and provide further analysis.

As for the next steps, the Department will continue to engage with stakeholders to seek views on the proposals and we will be keeping the Committee informed as that process continues.

That is a very brief introduction to a complex and difficult subject. Unlike some policies that I report to this Committee on, it is not of our making. It is something that we have had to deal with in terms of the 10% cut that has been imposed throughout the UK in relation to council tax support and our equivalent, which is domestic rates.

The Chairperson: Thank you very much, Brian. You touched on the topical examples that are included in the paper. Could you take the Committee through those to ensure that members have a good understanding of them?

Mr McAvoy: Rather than talk through set examples, we will draw out some of the key points from those examples. One of the most notable features of the low-income rate relief scheme is that the capital savings limit is £50,000 for pensioners. The Committee might have noticed in two of the examples that people who are in receipt of the low-income rate relief scheme still have savings of £41,000 or £43,000. One of the key features that is important to draw out is that it is supporting people who may, in certain circumstances, have a high level of capital as well.

The other key point is the top-up nature. In some of the examples, you will see people who are still getting a substantial level of housing benefit for rates, and the top-up element — the money from the rate relief scheme — is, in comparison, a relatively small amount. The removal of that still leaves a residual amount of benefit that is quite substantial in some cases.

Mr McClure: Andrew made a point about the capital limit. As you probably know, the capital limit under housing benefit is £16,000. Under the rate relief scheme, that capital limit — that is mainly savings — is increased to £50,000 for pensioners. That is not to say that all pensioners with savings of over £16,000 will suddenly find that they are deprived of rate support, because most of them are already passported through the guaranteed credit of pension credit, which does not have a capital limit. So, it is about other people at the margins. Most pensioners will continue to enjoy that protection. If you read some of those things in isolation, you can suddenly jump, understandably, to the wrong conclusion. It does not mean that pensioners who hold savings of more than £16,000 will suddenly be deprived of support. Some will lose that support but most will not.

The Chairperson: What percentage of those who avail themselves of the low-income scheme are pensioners? Could you break it down and give us a better overview?

Mr McAvoy: Forty-eight per cent of the 40,000 recipients are availing themselves of the pensioner side of the relief. I think that it works out at about 18,000 of the 40,000.

Mr McClure: There is an Assembly question on that next week. So, good question.

Mr Mitchel McLaughlin: Is there an answer? *[Laughter.]*

Mr McClure: There is, and it is exactly the same answer that we have given you.

The Chairperson: How does the other 52% break down?

Mr McClure: That is households of working age.

Mr McAvoy: A paper was provided for NICVA yesterday on the specifics of the examples, and it breaks it down and highlights different aspects of it. We could provide that to the Committee if that would be helpful.

The Chairperson: That would be useful.

Mr McClure: We can give you that today.

The Chairperson: You met some groups over the summer about the scheme. What are their views about the low-income proposal?

Mr McClure: The meetings were the first in a series, so they were mostly in listening mode. It is fair to say that they were not giving any major views. Some asked for more analysis, and we will provide that. So, we do not regard the meetings as the end of it, and we will have further meetings with them. Because this is quite a complex area, I think that they were keeping their views to themselves and simply asking for more information and probing us about some of the material in the consultation paper. It may be a bit early to say.

The Fair Rates Campaign was very concerned about any changes to the valuation cap. Views were expressed about the impact of removing low-income rate relief, which we have provided further analysis on. It was mostly around that.

The meetings yesterday with NICVA were attended mostly by the advice sector. We took them through the seven models that we set out in the consultation paper in relation to getting the rate rebate to work with universal credit in its initial stages. That is quite a complex area. A lot of views were expressed, and we got a lot of very useful feedback from that. However, I think that it is too early to say that views have crystallised on this.

The Chairperson: In paragraphs 84 to 86 of your paper, you explain that increasing the maximum capital value from £400,000 to £500,000 is not favoured at this time and would only realise a saving of £1·5 million. I would argue that that is still quite a significant saving. The cap was introduced in 2006, wasn't it?

Mr McClure: It actually became part of the St Andrews Agreement and gained quite a political significance at the time. The rationale was that no ratepayer should pay more than the highest council tax bill in England. Direct rule Ministers agreed to introduce that prior to the restoration of devolved power. Subsequently, following the Executive's review of the rating system in 2008, it was agreed that that could go down to £400,000. So, it was £500,000 in 2007 and £400,000 in 2008.

The Chairperson: Have you done any other forecasting on the basis of, say, a cap of £600,000 or £700,000?

Mr McClure: We have that material; we had it ready at the time. Things have not changed, because the valuation list has not changed significantly.

The Chairperson: Can we get figures on that to show the overall picture?

Mr McClure: Of course. That is not a problem.

Mr Weir: Just on the last point, if you are supplying us with figures, it may also be useful for you to indicate how many properties that would affect.

You have identified that the gap is £13 million at present. I think that that is the figure, roughly speaking. Effectively, that is because of the shift from annually managed expenditure (AME) to departmental expenditure limit (DEL).

Mr McClure: Yes; that is right.

Mr Weir: I got it round the right way. Although that is a 10% cut, it creates a fundamental shift and really should just be seen as a one-off figure. Do you have any indication of what you would envisage that gap being if, for example, we were to take no action at all? Clearly, in one sense, the gap will need to be filled, but how do you see the scope of the gap moving as we move ahead with this?

Mr McClure: I think that it will ramp up. It is currently £13,000; sorry, £13 million — I wish it was £13,000. We think that, next year, it could be £15 million or £16 million, and then it will become £18 million and £20 million. We think that it will escalate for a variety of reasons, including changing demographics, increased demand and uprating. For all those reasons, the gap will widen. The public expenditure pressure of £13 million will be much greater in two or three years time.

Mr Weir: You spoke about the flavour of the consultation and current thinking. You indicated that there was a feeling that that gap could not simply be filled through other government expenditure being redirected. From what you have said, presumably there will be a cocktail of measures, and a certain amount of it will come from a rate rebate review and at least some money will come from a redirection.

Mr McClure: I think that we are starting to feel that a combination of measures is maybe the direction in which to go. We are in the middle of a consultation, so I do not want to say that our minds are made up. Furthermore, this will go back to the Executive, so a lot of thought still has to go into this. A combination approach is probably where the answer lies. We were also informed in the first consultation, which was quite clear, that it should not continue to be wholly paid out of public expenditure, so the Minister has taken that message on board and the consultation uses that as a working assumption.

Mr Weir: I suppose, from that point of view, none of us are in an entirely comfortable position, because it is a question of all of those various reliefs. Other expenditure does good things in that regard, and, ultimately, it would be a false economy to simply fill the gap from other government expenditure, because that would mean removing it from other projects and other virtuous things that it could be spent on. From the point of view of the top-up system, when you provide those figures that the Chair asked for in relation to the breakdown of the pensioner figures, will they include any breakdown of how many of those pensioners are couples and how many are lone pensioners, for instance? Obviously, the scheme was introduced before the lone pensioner allowance was introduced, and, therefore, there is a degree of scope and there has been that degree of impact.

Mr McClure: I do not know whether the current figures that we can provide to you very quickly contain that, but it is a good question, and it may be an answer that we should try to get for you.

Mr Weir: It is something that could be looked at, because, essentially, if a large amount of the original intention is being done by other routes, it seems to me that, from a rate rebate point of view, whatever other adjustments are being looked at, potentially the top-up scheme is the big-ticket item if you are looking to make an impact on closing that gap.

Mr McClure: As I said earlier, the Department is not saying that it is not a worthy scheme. We are just saying that, in the general scheme of priorities, it probably does not have the priority that the other measures have.

Mr Weir: I think that is undoubtedly the case, because anything that we would do would ultimately reduce money, so it would be a worthy scheme in that regard. Just so that I am clear in my own mind, in terms of the top-up scheme — I know that you have given various examples — if there was a removal of the top-up scheme or any other action was taken on it, that would not affect the 220,000 who are receiving —

Mr McClure: No, absolutely not. That is the big-ticket item, which is preserving entitlement to 220,000 of the poorest households in Northern Ireland — those least able to pay rates.

Mr Weir: By definition, though, they are, from a financial point of view, in a worse-off position than those who are in the top-up system? It is sort of a gradation in that regard?

Mr McClure: Yes.

Mr Girvan: Thank you for your presentation. What are the implications for the rate rebate of the recently announced delay in the universal credit programme?

Mr McClure: It might give us a bit more time to devise a way of getting rate rebate to work with universal credit, but we think it is coming down the road anyway, so we have to make preparations. From a departmental point of view, it actually makes our job a little bit easier, because it could afford us a few more months to devise the right scheme. That is the main impact as far as our narrow perspective is concerned. I will not comment otherwise on welfare reform.

Mr Girvan: Was there any change in the rationale for the second consultation that we are undergoing? Why do we have to go out to a second consultation? What was the reasoning? Have the questions changed?

Mr McClure: We wanted to do two consultations because, first, changing support measures is quite controversial, and, secondly, we wanted to do it in two stages to establish some guiding principles. We think that, to some degree, we have managed to do that, in that the consultation told us various things, and you will see those featured in the second consultation. It is not simply, "DFP says"; it is, "DFP has listened, and here is what we propose to do".

Mr D McIlveen: Thanks, Brian. I have one question around terminology, and perhaps you can bring a bit of clarity to it. From memory, it is stated that, within the rate rebate scheme, you could take the social security legislation and rehouse it within rating legislation.

Mr McClure: Yes.

Mr D McIlveen: May I ask what that looks like in practice?

Mr McClure: There is provision in the Welfare Reform Bill to transfer all of the rate rebate legislation from the housing benefit legislation to the Rates (Northern Ireland) Order 1977.We have an existing provision. It is article 13 —

Mr McAvoy: Article 30A.

Mr McClure: Article 30A allows DFP to introduce support measures. We believed that it was not clear enough in the legislation and that we had to say, "including rate rebate". That is, effectively, what the Welfare Reform Bill is. For the avoidance of doubt, article 30A now includes rate rebate. So, that power will be taken through in DSD enabling legislation, and it will then be rehoused under the Rates Order.

Mr D McIlveen: That is very helpful. Thank you.