



Northern Ireland  
Assembly

Committee for Finance and Personnel

# OFFICIAL REPORT (Hansard)

Rate Rebate Replacement Scheme:  
Department of Finance and Personnel

22 January 2014

# NORTHERN IRELAND ASSEMBLY

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**Members present for all or part of the proceedings:**

Mr Daithí McKay (Chairperson)  
Mr Dominic Bradley (Deputy Chairperson)  
Ms Michaela Boyle  
Mr Leslie Cree  
Mr Paul Girvan  
Mr Ian McCrea  
Mr Mitchel McLaughlin  
Mr Adrian McQuillan  
Mr Peter Weir

**Witnesses:**

Mr Brian McClure	Department of Finance and Personnel
Ms Roisin McRory	Department of Finance and Personnel

**The Chairperson:** I welcome Brian — you are very welcome back to the Committee — and Roisin McRory from rating policy division. Brian, do you want to make a brief opening statement, including a recap on the background to the rate replacement scheme issue and recent developments? I am just conscious that some new members of the Committee might not be across all the detail of this.

**Mr Brian McClure (Department of Finance and Personnel):** Thank you, Chair. Good morning, everybody. The background to this is that it is a part of welfare reform that has already been implemented. A 10% cut has been applied to council tax benefit in GB, and the corresponding scheme in Northern Ireland is rate rebate. From April 2013, we have already been subjected to a 10% cut, which represents about, I think, £13 million in the first year, that will recur and, in fact, increase as time goes on. We are not coming to the table to say that we wish to improve the rating system through this reform process; it is about having to deal with the difficult circumstances of a reduction in funding for rate support for households.

We had two public consultations on this last year, with the second one having just concluded, and we found these to be useful engagements. The second consultation concluded on —

**Ms Roisin McRory (Department of Finance and Personnel):** At the end of October.

**Mr McClure:** — the end of October. We found that to be a very useful engagement. As a result, we got 20 responses to the consultation: two from ratepayers and 18 from what I would describe as the advice sector. We had a very positive engagement with it. That engagement has gone beyond the normal consultation process. Not only did we have the formal consultation but, because of the

responses that we received from the consultation, we had a further round of discussions with the advice sector on the various proposals. I would like to report back on where we are with that.

Rate rebate is now a devolved matter. Previously, it was part of the national social security system. Westminster has devolved that to Northern Ireland with this 10% cut. So, we are free to devise our own policy on rate rebate and to protect those whom we wish to protect.

We view the proposals that have gone out to consultation as a bit of an interim step, because, in the longer term, as and when universal credit is introduced, we think that we will have to fully redesign the whole system of rate support so that claimants do not have to make two claims and to avoid all the intricacies associated with having to provide information to two Departments. We would like a bit more joined-upness in future. So the proposals that we are talking about at the moment are to deal with the interim position, "interim" being, we think, two or three years.

Currently, the main rate rebate scheme protects 220,000 households in Northern Ireland. Probably about four fifths of those pay no rates because of rate rebate, and the remainder pay a reduced rate, so it is quite a significant policy that we are talking about.

The current thinking with our Minister and officials is that the main scheme should be protected. That is not what is happening elsewhere in the UK. In parts of England, many local authorities have chosen to top-slice their schemes or target them in a reduced way. What we are proposing — this is probably the main headline in relation to the policy — is that we wish to retain the main elements of the current scheme. However, the current scheme operates with the existing suite of social security payments. When universal credit comes along and the first claims start to emerge, we have to find a way of getting universal credit to work with rate rebate so that claimants are not required to provide a lot more information and there can be much more automation of providing awards under rate rebate.

That is a key part of the second consultation, which goes into a lot of detail as to how it would operate. I can go into the detail of it, but I am not sure whether the Committee would get a lot of benefit from me going through all of the mechanics of that. It is set out in the second consultation paper and is addressed in the consultation report, but I am more than happy to take questions on the detail.

Another element associated with the process is what we are to do with other rate reliefs and allowances, because the clear message that we got from the first round of consultation was that the advice sector felt that we should not continue to pay all of that out of public expenditure, but should look at other forms of reliefs and allowances that are paid through the rating system to help make up the shortfall. That is a very difficult issue to deal with. The proposal we set out in the second consultation was that the top-up scheme — that is, the low income rate relief scheme — should be removed as soon as possible. That has a policy logic in that, faced with cuts, you would remove a top-up, but it also has an impact, of course. We are more than happy to talk about what the impact of that would be. Final decisions have not been made on this, by the way; I am just outlining the context.

In relation to other reliefs and allowances, there were varied views in the consultation on whether we should move to lone pensioner allowance, whether we should look at the valuation cap, whether we should look at disabled person allowance, and all of the various other allowances. As I said, we have not yet put proposals to the Minister, but we will be doing so in the coming weeks.

That is a very brief background to where we are. There was also the issue of whether we needed a hardship scheme associated with the changes. The views on that were mixed. Some in the advice sector felt that hardship schemes do not really get to those in greatest hardship and are very difficult to administer. Recognising that, they thought that the money might be better spent on ensuring that there was greater take-up of people's entitlement and greater information and awareness. We have been looking at hardship schemes. We have not found a model yet that we think could work, but, more importantly, it was important to note that the advice sector was not enthusiastic about a hardship scheme.

Those are some of the broad issues that we have been looking at, but there is a lot of detail in there, and I am more than happy to answer questions on the detail. There is a particular detail about how we can get universal credit to work with rate rebate. Various models were presented in the consultation paper, with examples as to how those would operate. That has been the subject of a lot of very detailed discussion with those in the advice sector who are experts in means-tested social security.

**The Chairperson:** Brian, in terms of process, you said that you will be going to the Minister with proposals shortly. When will the Department be in a position to come to the Committee with a fully developed preferred way forward? What is the timetable?

**Mr McClure:** Probably about March, I would have thought.

**The Chairperson:** What is the timetable thereafter?

**Mr McClure:** I should explain that, although the funding cut has occurred, rate rebate continues to operate as if it is part of the social security system; it operates under that legislation. From April 2015, all new claims for rate support will be DFP schemes. From April 2016, they will all migrate over to DFP. Currently, the Housing Executive handles about two thirds of the 220,000 claims; that is about 160,000 claims. Those will all move over to Land and Property Services (LPS) from April 2016, but new claims will be handled by LPS from April 2015. That is the proposal in respect of the administrative arrangements.

**The Chairperson:** In light of the consultation, what further assessment is DFP making of whether to retain or adjust other forms of rate support? I am thinking, in particular, of the 400,000 cap that it considered before.

**Mr McClure:** Sorry; in relation to the analysis that we have undertaken, or —

**The Chairperson:** In response to the consultation.

**Mr McClure:** Some respondents were in favour of it, and some were not. The Northern Ireland Fair Rates Campaign was particularly opposed to it. I do not have the detail of other responses in front of me, but —

**Ms McRory:** All of those will be put to the Minister for him to look at the various reliefs and what might change.

**The Chairperson:** But have you a particular mind to that?

**Mr McClure:** No; we will be presenting the Minister with a range of options. We have no particular preferred relief that we think should go, other than the preferred option of the removal of a top-up scheme. However, this is in addition to that. We do not have set views on any additional reliefs, but we will be presenting the case to the Minister. He will then present the case to the Executive, because this will be an Executive decision.

**Ms Boyle:** Thank you for your presentation, Brian. I think that it is fair to say that, in any given month or year, the fact that people can no longer afford to pay rates and need further assistance to do so is probably the biggest single issue that we, as MLAs, deal with in our constituency offices. My concern is with the rising levels of poverty, job losses and deprivation, and the impact that that will have on families who are in receipt of assistance at the minute but may no longer qualify if the level of support is reduced. You said that this will go to the Executive. The Executive needs to continue to support the scheme and, indeed, enhance it further. I will wait until we get the presentation from the Department before I say more.

**Mr McClure:** I take that point. I will say by way of clarification that those of working age who are in receipt of any of the normal social security payments will not feel their entitlement change. Similarly, that will not change for pensioners on the main scheme. The 225,000 households that we are talking about will continue to be protected; that is the big headline from this. The issue is the shortfall that we are faced with, the introduction of universal credit and how we can get universal credit to work effectively with rate rebate to ensure that claimants are easily passported to rate support. That is a major part of the second consultation.

**Mr McQuillan:** I agree with Michaela, but I want to ask you about the four fifths of claims that the Housing Executive deal with now, and which will be transferred over to LPS.

**Mr McClure:** It is about two thirds of the claims.

**Mr McQuillan:** Well, two thirds. That will only put more pressure onto LPS. Has it got the expertise to cope with that?

**Mr McClure:** Yes, LPS is already engaging very intensively with DSD and the Housing Executive on managing this. It will be a staged migration. The first stage will be that, from April 2015, all new claims will pass over to LPS. Then, from April 2016, all the claims will move over. There is a staged approach to that.

**Mr McQuillan:** It worries me a bit, because the Housing Executive has been dealing very well with these people in getting these claims through. It worries me that, when it passes over to LPS, there will be some backlog or something. We need to ensure that that does not happen.

**Mr McClure:** I agree that this needs to be done well. LPS, however, already deals with all of the rate rebate claims for owner-occupiers, so it has a housing benefit section already in LPS. That will just have to be enlarged, and our systems will have to be changed to allow for that. So, it does have expertise in house to be able to deal with rate rebate. The numbers will be a lot larger than it has been used to.

**Mr McQuillan:** You scare me a bit when you say that LPS's systems will have to be changed. When it happened before, we did not have a very good experience.

**Mr Mitchel McLaughlin:** That is what we have been saying for years.

**Mr Weir:** Thank you, Brian. You are right about the big headline figures. So that we can get our heads around the quantification, you obviously mentioned the transfer over, but at a 10% reduction. I appreciate that, as the years move on, the percentage share will be bigger. Can you give a quantification of what that equates to moving ahead, in terms of the immediate figures? The other thing is that, obviously, as we are considering precisely the way to go forward on this, there is a range of options and maybe a cocktail of measures that may well be considered as part of that. By the same token, there may be a danger sometimes that people may fixate on particular issues that, in terms of the actual quantum, will be relatively small one way or the other. You mentioned that, although no decisions have been taken, the most obvious route from a big-ticket item is the issue of the top-up, instead of attacking the direct entitlement side of it. As you were outlining from the financial point of view, you mentioned the impact from the top-up side of it. If we are looking at quantifying the hole that needs filled, if that was one issue that was at least being considered, what impact would that particular action have on meeting or at least reducing the shortfall?

**Mr McClure:** Our current estimate of that is £6.7 million.

**Mr Weir:** To clarify, £6.7 million —

**Mr McClure:** If we were to remove the low income top-up scheme, it would save £6.7 million, which is about half the current shortfall of about £13 million. We will have to sharpen our pencils in DFP to make sure that we get the figures exactly right, but our current figures are that the current scheme costs about £130 million, and the funding of that has been reduced by about £13 million. That is the gap that we are currently working to. As I said, the figures may well change as we get more accurate figures on actual cost, but, at the moment, those are the estimates that we are working to. This cut applies to the devolved Administrations in Scotland and Wales as well, and it also applies to local authorities that administer council tax benefit in England. So, that cut is already applied throughout the UK.

**Mr Weir:** I appreciate that, with any of these things, there will always be a certain level of averages and that things will operate differently. Taking a snapshot, if, for example, as part of the overall package, the top-up scheme were removed, how would that impact on the average individual who is in receipt of that? How many people are benefiting from that £6.7 million? What would be the impact of that, and what level of support would remain with those people?

**Mr McClure:** There is a danger in averages, as you know.

**Mr Weir:** I understand that. It is just so that we can get a ballpark figure.

**Mr McClure:** In terms of the claims that are handled by the Housing Executive, you are talking about £2.62 a week. In terms of the claims that are currently handled by LPS, which deals with the owner-occupier sector, it is £4.36 a week. So, the overall average is £3.49 a week. That gives you an idea. However, as I say, there are some extremes within that: some people with tiny amounts below that, and some people with significantly greater amounts. In total, the top-up scheme either gives extra relief or provides new relief to about 38,000 people.

**Mr Mitchel McLaughlin:** I am encouraged by the lateral thinking that is going on and, as Peter mentioned, the fact that a range of options was identified for people, because it helps you to get your head round the complexity of this. It is not surprising that all the options have attracted some support. There are lots of perspectives applied, and I presume that it will be some kind of cocktail of best options. I am starting to get an understanding now of why there was what appeared to be a pre-emptive move to bring LPS inside the Department. It is starting to make sense to me now, and I can see why the Minister wanted to keep an eye on that operation, if there is this transfer of functions and it has a central role. I am not even arguing against it. I think that they are good ideas that should be teased out to see how they apply.

From listening to you, it seems to me that we are talking about removing top-ups and then about compensatory responses within whatever kind of budget and finance we can manage, recognising that a lot of people are genuinely struggling to manage. The economy has not developed, the employment opportunities are not there, and we will continue to have to address a whole range of issues, from housing stress right across to people who are slipping into poverty. The measures introduced by Westminster will have a direct and, without question, detrimental effect. So, we are trying to figure out the bolt-ons that would alleviate or ameliorate some of those impacts, and, on that basis, we should support what you are doing to try to identify solutions here — and, hopefully, solutions to divisions between the parties as well, because there are different approaches and opinions here. However, at the end of the day, we have a job to do, and we probably share a concern about driving people into hardship, because of all the consequential social and health problems and costs that that will impose on us as well. I am taking a lot of encouragement from the approach, and I commend the Department and commend you for being so open with the Department. There is probably a wider debate to be had that would maybe facilitate the parties being able to reach understandings and agreements on how we step forward.

I am not sure whether there is a quantum in terms of the amount of money that can be allocated to the process and whether we are working within a budget that either is sufficient or would have to be negotiated. I am also not certain that we have covered all the options in the discussions, including the question of minimum wage payments in the public sector, given its predominance and power in our economy, and whether the introduction of a living wage would actually help to keep people out of poverty, because we will have to pick up the tab if that happens. Options are starting to open up as we tease it out, and I am encouraged by it.

**Mr McClure:** Thank you for that. It will be a very difficult financial environment in which we will have to operate the scheme because, previously, it was annually managed expenditure (AME), and now it will become departmental expenditure limit (DEL). So, whatever the demand was before, it was met by Westminster, but that will not be the case any more.

**Mr Mitchel McLaughlin:** Will you know in advance?

**Mr McClure:** So, it puts a lot of pressure on the Department to ensure that it lives within whatever budget that it has to do this. The DEL transfer, as I said, is 90% of the recent AME cost for the scheme. So, we know what cost envelope we are working within.

It was very interesting that the first consultation was very clear from the advice sector. That sector understood the pressures on public expenditure and took a very measured and mature view, saying that we should look within the rating system first to see whether there is scope for rationalising the range of reliefs and allowances to help to pay for this so that we would not have to fund it all through public expenditure. There may well be a case for funding some of the shortfall through public expenditure, but that is a matter for Ministers.

We will be presenting a range of options on how you could make up the shortfall. The decisions will be political, but we will be advising Ministers on the cost implications and the impacts of removing or reducing each one of those. We will be doing that within the next few weeks.

As I said, our recommendations will go first to our Minister, and, once that has happened, I will be more than happy to brief the Committee. It will also, of course, have to go to the Executive.

**Mr D Bradley:** Good morning. I see that you were pleased with the level of response that you got. I think you said that model 7 attracted the most favourable comments but that models 4 and 5 were also well supported. What exactly are the next steps?

**Mr McClure:** Given the responses that we got from that consultation, we had a further round of engagement and developed a refined version of model 7, which is, curiously enough, called model 8. It is an improvement on the previous proposal that we went out to consultation on. So, we had a further consultation event with representatives from the advice sector just before Christmas. That helped us to refine our thinking. We provided further analysis to the advice sector on that.

**Mr D Bradley:** What was the advice sector's response to model 8?

**Ms McRory:** Some people still wanted some elements of model 7 to go forward, whereas others saw model 8 as a new model and a positive development. There are cost implications. Model 7 would cost an extra £6 million, whereas model 8, which is more refined and uses more of the universal credit information, would have no additional cost.

**Mr D Bradley:** Can you summarise the main difference between model 8 and model 7?

**Ms McRory:** The basis of model 7 was that anyone who has their full eligible rent met through universal credit would be passported to rate support without the need for any further assessment. Model 8 still uses some passporting, but its basis is that all those with zero income taken into account in the assessment of their universal credit should be passported to rate rebate. However, instead of using housing benefit rates, we would use what is known as the maximum amount for universal credit, which is the amount that the Government set for people to live on.

Under model 8, we would lift that information and use it to measure whether you are entitled. We would use the current housing benefit means of taking account of income, which would include taking universal credit into account as income and then enhancing the current housing benefit earnings disregards.

One of the comments that we got was that there was not much work incentive. So, we suggested enhancing the earnings disregards by 50%, which is the amount of earnings that is ignored when you take into account the amount of earnings in an assessment. The current amount of earnings disregards vary from £5 to £42 weekly, depending on the individual's circumstances. Our proposal in model 8 is to enhance that by 50%. The outcome is that it would not cost any more. It actually shows a saving of £1.2 million, but I do not think that we can take that as savings, because it will happen when universal credit is fully operational and when every single person who would be entitled to it has claimed it. So, it is probably cost neutral.

**Mr McClure:** There is a lot of detail in that. I would be more than happy to give you a separate paper on this outlining the differences between model 7 and model 8 and giving the advantages and disadvantages and examples of how it would work in practice. If the Committee would find that useful, I would be more than happy to provide it.

**The Chairperson:** Yes.

**Mr D Bradley:** Can we take it that, going forward, model 8 will be the basis for the eventual outcome?

**Mr McClure:** Yes, that is what we will be putting forward to the Minister. The Minister will make up his own mind on this, but that is our current preferred approach. We also think that it has the support of most in the advice sector. We had a very positive and intensive engagement with the advice sector over a number of weeks about developing these models. I will not say that we are confident that the Minister will agree, but that is certainly the preferred option that we will present to him.

**Mr D Bradley:** I will be interested to see your detailed paper on model 8. Thank you very much.

**The Chairperson:** I have one final question. Following on what Michaela said, I see that a point that the Institute of Revenues Rating and Valuation made is in paragraph 21. It stated that:

*"there will need to be an effective evaluation of the consequences of the removal of the low income rate relief and the possibility of a 'one off' transitional protection scheme for certain cases."*

You made the point that you would be bringing forward an assessment of the impacts of this scheme. Will that be an assessment of its social impacts? How much detail will you be going into?

**Mr McClure:** It will be impacts on particular households, and it will be our assessment of what they will lose out on. So, yes, we have done that work, and we are more than happy to present it.

**The Chairperson:** Do you have any view of that one-off transitional protection scheme?

**Mr McClure:** It is wrapped up in whether we have a hardship scheme. Transitional protections can be very complex and very difficult to administer. The purpose of this is to try to save some money to help to make up a shortfall to preserve the main scheme. So, if we have too elaborate a transition scheme, we will lose that advantage in making up a shortfall. However, that is not to say that we will not give careful consideration to what mitigating measures we can take so that the very hardest cases do not emerge from the removal of a top-up scheme.

**The Chairperson:** OK, members. Brian, Roisin, thank you very much. Members, I remind you that Brian is staying to discuss the next agenda item.