Law Centre (NI)

Department for Finance and Personnel

Welfare Reform: Rate Rebate Replacement Arrangements - Preliminary Consultation Paper

April 2013

Law Centre NI is pleased to respond to the Department for Finance and Personnel's Welfare Reform; Rate Rebate Replacement Arrangements Preliminary Consultation Paper.

About Law Centre NI

Law Centre (NI) is a public interest law non-governmental organisation. We work to promote social justice and provide specialist legal services to advice organisations and disadvantaged individuals through our advice line and our casework services from our two regional offices in Northern Ireland. It provides a specialist legal service (advice, representation, training, information and policy comment) in five areas of law: social security, mental health, immigration, community care and employment. Law Centre services are provided to almost 400 member agencies in Northern Ireland.

Introduction

Law Centre NI welcomes the NI Executive's intention to maintain the current arrangements for 2013/14, with possible extension to 2014/15. We acknowledge the difficulties faced by the Department for Finance and Personnel in developing a new scheme given the 10% expenditure cut emanating from the Treasury and the timeframe for implementation in line with the introduction of Universal Credit. We are disappointed that the overall funding for rate rebate assistance cannot in the future be sustained to the same extent as present.

We note that the Great Britain approach is to protect pensioners which will imply a 19% reduction in support for working age claimants. We do not agree that Northern Ireland should adopt this approach. We believe that the transfer of funding for rates rebate from the Annually Managed Expenditure to the Departmental Expenditure Limit presents Northern Ireland with an unique opportunity to develop a progressive and tailored Northern Ireland rate support scheme and this opportunity should be grasped.

Part of the reasoning behind Universal Credit is to simplify the social security system and remove work disincentives. Law Centre NI is concerned that leaving support for domestic rates outside Universal Credit has the potential to undermine these aims. Therefore, any new scheme developed for Northern Ireland, although outside this new system, should be consistent with these principles. Law Centre NI envisages a scheme that is progressive, consistent, protects the most vulnerable, is easily understandable and gives claimants sufficient time to understand changes in their awards in particular to those who may not previously have had to pay rates. In time, our preference is to see a rate rebate scheme which is integrated within Universal Credit providing it does not undermine the approach of making work pay and that it is also financially progressive.

Options for Interim Replacement Scheme

We note the options for an interim scheme presented in the consultation document. As mentioned above, we do not believe that Northern Ireland should pursue the Great Britain approach to protecting pensioners from the cut at the expense of working age claimants. Rate rebate claimants are generally on low incomes and may be vulnerable for a myriad of reasons. Some may not meet specific criteria for vulnerability but are at increased risk of poverty and deprivation because of an accumulation of factors. Ring fencing pensioners as a homogenous group will lead to further disadvantage for working age claimants. Arguably to date, working age households have suffered greater financial penalties than older households (see for example, the work of the Institute for Fiscal Studies on the Impacts of Universal Credit).

Law Centre NI is in favour of maintaining an equivalent level of support as present, however, we recognise the disadvantages outlined in Option 1 which could make the scheme untenable in the future. We see merit in the interim of taking the sub option 1.1 approach and offsetting savings from additional schemes being made towards the cost of maintaining the existing scheme in the short term. We would make the exception for the Disabled Person's Allowance. In addition, we do not agree with the introduction of the 'top slice' scheme outlined in Option 3. We are concerned that the impact of such measures may be similar to that when the community charge was introduced in 1988. The Northern Ireland adoption approach led to many households suffering acute hardship and indebtedness, including rate rebate arrears with added court and enforcement costs. In Northern Ireland this scheme was abandoned after two years due to financial administrative reasons.

The original scheme in 1988 entailed all claimants on income support paying 20% of their rates. The average payments for claimants was around 60 pence a week. The cost of collection including following up on non-payment amounted to 36 pence a week. As a result, both in principle and in practice we are opposed to any proposals that envisages all claimants paying something towards their rates, no matter how low individual or family income. It is worth noting that already almost 85% private rented sector claimants on means tested benenfits (and if the size related Housing benefit proposals are implemented) a considerable proportion of public sector tenants will already have to find a proportion of rent from within a limited disposable income. As a result, any additional changes for claimants on means tested benefits will be hard to find particularly for working age claimants. Therefore we do not support this as a viable option.

Suggested Option

Law Centre NI believes that a combined approach of consolidating the funding for other forms of supports (outlined in sub option 1.1) and the use of gateways (outlined in Option 4) could produce a viable future Northern Ireland option.

Northern Ireland has developed additional rate relief schemes from its Departmental Expenditure Limit which include; the Maximum Capital Value arrangements, Lone Pensioner Allowance, Early Payments Discount, Disabled Person's Allowance and Clergy Resident Discount. Law Centre NI recommends consolidating the funding for these additional rates support measures in order for it to be redistributed under the new scheme, for example, the abolition of Maximum Capital Value Scheme alone would result in £3.8 million being made available.

In policy terms we sew few cogent reasons for keeping any of these schemes (save for the Disabled Person's Allowance Scheme). In the case of the Maximum Capital Allowance, we can see no basis for keeping this arrangement at all as it is deeply regressive. We recognise that some of the schemes have particular political party support. On a pragmatic basis, some of the money saved could be used for example, to look at other ways of providing particular support for older people. We support the retention of the Disabled Person's Allowance where the property has been adapted to meet the needs of a disabled person. Given the current healthcare reform outlined in the Department for Health, Social Services and Public Safety's *Transforming Your Care* and *Who Cares* which promotes the home as the hub of care, it is important that assistance is maintained to support people to remain in their home, who have made necessary adaptations to their home, and to provide an incentive for adaptations to continue to be made.

We have also had an opportunity to consider the recently published IFS report Universal Credit in Northern Ireland: what will its impact be and what are the challenges? At this point, it is difficult to make definitive comment on the report without knowing additional detail about the underlying assumptions made when putting forward options. In examining long term solutions there are clearly tradeoffs between cost, simplicity and administrative arrangements including IT . The larger number of people passported from Universal Credit (as well as Pension Credit) the more costly the financial outcome. At the same time, the simpler the scheme will be to understand and to administer. We thinks costings could be undertaken to look at a variety of passporting approaches from; all Universal Credit claimants, all out of work claimants and those working under a specific number of hours, all those out of work and those on incomes below specific thresholds adjusted for income size, those out of work plus those with particular characteristics e.g adult with a disability, a child with a disability, a child under a specific age etc. A similar exercise could be conducted for Pension Credit adding additional characteristics. Our preference is to passport claimants based on their income wherever possible. We do recognise that as well as cost implications there is also the question of avoiding 'cliff edge' situations. We note, however, that it is difficult to see a solution which does not add to the existing 'marginal tax rate' of 65% (for a non tax payer) and 76.2% (where already a tax payer) that will apply to moving into work within Universal Credit. Nonetheless, the option outlined by IFS will leave some claimants with a marginal tax rate of above 100% (i.e worse off if taking upwork) is one we could not support.

In the long term, a solution that lies within Universal Credit is attractive. Any alternative arrangement long term should also look at help with rates ideally being administered within the same Department that looks after Universal Credit. We recognise that may have implications beyond simple administrative efficiencies.

Finally should any scheme create losers and winners then traditionally this is normally dealt with by way of transitional protection. Transitional protection is fairer but creates complexity both to any scheme and its administration as such protection is eroded over time. One possibility might be to examine the possibility of buying out any loss in transitional protection through a one-off payment at the point of change.

An issue raised by the introduction of Universal Credit is that particular benefits currently used to passport automatically to rate rebate will cease to exist when they are subsumed into Universal Credit. We are not optimistic that suitable passporting solutions will be resolved shortly (stated on page 12), rather it may take at least until 2015/2016 to introduce comprehensive arrangements though we anticipate that interim arrangements may be put in place .

Only two passport schemes have been arranged in GB to date:

- Sure Start and Funeral Benefits will passport to all those on UC. While it will be more costly to administer, the budget will be containable.

- Cold Weather Payments will be available to those not in employment on Universal Credit, those in receipt of the Limited Capability for Work element, in receipt of the Disabled Child element and those with a child under 5.

As a result we do not think a solution to the passporting issue tailor made for the rate rebate scheme will emerge over the next two financial years.

Executive Summary

Our particular recommendations include:

- Do not adopt a ‘top slice’ approach whereby everybody should pay something
- Abolish all support schemes, save Disabled Person’s Allowance , to close the funding gap by maintaining existing scheme
- Carry out economic modelling around the various passporting models and additional means testing
- Explore the option of cashing up Transitional Protection

We trust you will find our comments helpful. If there is any further way in which we can assist in the consultation process, we would welcome the opportunity to do so.