# Department of Finance and Personnel

# Rate Rebate Replacement Arrangements:

# The Way Forward

## Public Consultation Paper

## July 2013

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## SECTION 1: INTRODUCTION

1. This consultation is about changes happening to the rates support element of Housing Benefit, known as the rate rebate element of Housing Benefit. These changes are needed as a direct result of the UK Government's decision to remove Council Tax Benefit in GB and the rate rebate element of Housing Benefit in Northern Ireland from the social security system.

2. Although this is part of the wider Welfare Reform, it also supports the Government's drive to reduce the fiscal deficit. For this reason the whole process is about finding ways of protecting those least able to pay rates in light of limited funding.

3. The Department of Finance and Personnel has already undertaken a 12 week preliminary consultation exercise to inform how a new scheme might be developed and to gather fresh evidence of the potential effect on households. The key outcomes from that preliminary consultation are set out in **Section 3** of this paper.

4. Taking account of suggestions made by consultees at preliminary stage, the purpose of this second stage consultation is to set out the proposed way forward together with illustrative impact assessments and modelling. This paper will be subject to a 12 week consultation process.

5. **Section 1** provides an introduction and overview of the purpose of this consultation.

6. **Section 2** sets out the background to the replacement of the rate rebate scheme.

7. **Section 3** provides an overview of the outcome of the preliminary consultation.

8. **Section 4** sets out the preferred approach to replacing the rate rebate scheme.

9. **Section 5** outlines the policy rationale for the preferred approach put forward in this paper.

10. **Section 6** covers the specific issue of how universal credit might be taken into account in a means test for rates support, and outlines modelling for a variety of approaches, noting some of the issues raised by the recent Institute of Fiscal Studies Report entitled, "*Universal Credit in Northern Ireland: what will its impact be, and what are the challenges?*"[1]

11. **Section 7** covers the financial impacts associated with the Department's preferred approach.

12. **Section 8** provides background on the new TSN[2], rural proofing and equality impact assessment exercises. The detail of this analysis is included in the initial Integrated Impact Assessments (IIA) conducted by the Department. These are available on the Rating Review website http://www.ratingreviewni.gov.uk. If you have any queries or wish to obtain a copy of these documents, you should contact Rating Policy Division (see contact details in **Section 9**).

13. **Section 9** sets out the next steps following consultation and the expected timetable for the replacement of the rate rebate scheme.

[1] http://www.ifs.org.uk/publications/6641
[2] New Targeting Social Need is a policy designed to tackle social need and exclusion by targeting resources towards those in greatest social need.

14. A number of questions, that may be helpful in responding to the issues raised in the consultation paper are set out at **Annex A**.

15. The Department accepts that some of the issues in this paper are complex and technical, particularly the modelling in **Section 6**. This is unavoidable due to the subject matter.

16. The Department is keen to seek the views of individuals who may be affected by the changes to rate rebates. To this end representatives from the Department are available to speak to individuals to explain the modelling in more detail if required. This can be by telephone or meeting, depending upon what best suits the individual. That offer apples also to the advice and welfare rights sector who have a keen interest in the issues but who are more familiar with the complex nature of rate rebates. A contact number is provided in **Section 9** of the paper (Next Steps).

## SECTION 2: BACKGROUND

17. In its Spending Review 2010 the UK Government at Westminster announced that support for Council Tax (Council Tax Benefit) would be localised from April 2013 and expenditure reduced by 10% from the same date.

18. This has now taken effect and the changes implemented in Council Tax Benefit in Great Britain also took effect in relation to the Northern Ireland equivalent, the rate rebate element of Housing Benefit.

19. Effectively the policies and the associated cuts in funding have now been devolved to 326 local authorities in England and the devolved administrations in Scotland, Wales and Northern Ireland.

20. Each authority in England, and the devolved administrations in Scotland and Wales had to come up with their own schemes, within a reduced budget and in doing so continue to provide support for the most vulnerable while also taking account of the wider aims of Welfare Reform, namely to make work pay.

21. The position of local authorities in England and the other devolved administrations in Scotland and Wales is laid out in **Annex E**.

### Northern Ireland position

22. In Northern Ireland we are not bound to adopt each and every principle of Welfare Reform in modifying our main rates support scheme. Domestic rates support is a devolved matter and the Executive can choose whom it wishes to continue to support (identifying the most vulnerable) and how to fund it.

23. The Northern Ireland Executive were the first devolved administration to announce, in June 2012, that it would cover the funding shortfall from public expenditure in the interim, to allow more time to develop a new scheme. The Executive was forward thinking in this approach which was followed by Scotland and Wales, presumably due to the limited time available for adequate consultation and policy development.

24. The Executive's approach has allowed the current rate support measures through Housing Benefit and other means to be maintained for the year April 2013 to April 2014. It is necessary, however, to make some changes from April 2014 to ensure rates support continues for the most vulnerable households.

**Universal Credit and Passporting**

25. Currently those on one of the income–related benefits[3] can be passported onto Housing Benefit for rent and rates if a claim is made. It was explained in the preliminary consultation paper that the introduction of Universal Credit would affect the current passporting arrangements for working age claimants

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26. Universal Credit will replace virtually all social security benefits for those of working age. However it will extend to a much wider population than those on income related benefits and will include those on small amounts of tax credit.

27. For reasons of need and affordability, mere entitlement to Universal Credit cannot be used to determine eligibility to rate rebate in the same way that the current system operates. Therefore new eligibility criteria for means tested rates support will

[3] Income support, Income Based jobseekers Allowance, Income-related Employment and Support Allowance and State Pension Credit (Guarantee Credit)

need to be introduced soon, for those who are not on these legacy benefits.

28. There is now a clearer picture emerging of how current Housing Benefit awards will be migrated onto Universal Credit. Universal Credit is expected to come into effect in Northern Ireland during 2014. It is intended that there will be a gradual ‘area by area’ rollout of Universal Credit beginning with those claimants that would otherwise claim Job Seekers’ Allowance (JSA). The migration of affected benefit claimants, including those in receipt of Housing Benefit, is planned to be completed by 2017.

29. Where the majority of claimants remain on one of the income-related (legacy) benefits, this will allow existing passporting arrangements to continue for a longer period than expected. Later the paper looks at how to effectively manage those who move onto Universal Credit when the current passport arrangements can no longer apply.

**State Pension Credit and Passporting**

30. Currently ratepayers who receive the Guarantee Credit of State Pension Credit are passported onto Housing Benefit for rent and rates (subject to a claim being made). Under Welfare Reform, the rent element will become part of the assessment for State Pension Credit, added as a “housing credit”. This has the potential to increase the numbers receiving State Pension Credit which in turn would increase the numbers receiving support for rates if receipt of State Pension Credit continued to be used as a passport.

31. However plans to introduce modified State Pension Credit in Northern Ireland to include a “housing credit” with rent included as part of the Pension Credit assessment are currently not due to

start until October 2015. This means that current passport arrangements for those on State Pension Credit may also remain for the next couple of years if that is decided as a way forward.

32. Those who receive only the savings credit of State Pension Credit are not automatically passported onto Housing Benefit but are subject to a standard assessment to determine entitlement. Such arrangements could continue for a rate rebate replacement if that is decided as a way forward.

## SECTION 3: OVERVIEW OF THE PRELIMINARY CONSULTATION: METHODOLOGY AND OUTCOMES

33. The Department of Finance and Personnel published a report on the Northern Ireland Executive's preliminary consultation exercise in April this year. The report can be accessed at the following link:

http://www.dfpni.gov.uk/rating-review/rate_rebate_replacement_arrangements_-_report_on_preliminary_consultation_exercise.pdf

34. During the preliminary consultation process, views were expressed on a range of options to develop a new scheme to provide rate rebates in Northern Ireland from April 2014. The options that were presented in the consultation paper included:

(i) Maintaining the current level of support but removing other forms of support.

(ii) Maintaining current levels of support for vulnerable groups and focussing cut on remaining claimants.

(iii) Top slicing or taper support to match budget, either fixed for a spending review period or adjusted annually in line with uptake and budgetary forecasts.

(iv) Introducing a completely new income based scheme.

35. These options are set against the challenge of achieving the following policy aims:

a. Supporting the most vulnerable;
b. Making work pay;
c. Protecting revenues; and
d. Working within a cash limited budget.

36. It was accepted in the preliminary consultation paper that the final proposals would be unlikely to satisfy all these aims. It was recognised that while some of the policy aims can be achieved through each of the options none satisfies all the policy aims.

37. The preliminary consultation period closed on **10 April 2013**.

38. Whilst there was broad consensus from the advice sector, who were in the majority, there was a significant minority view expressed by others.

39. None of the responses suggested looking outside the rating system to help fund the shortfall or that more public expenditure should be used for this purpose. Views were either about rationalising other domestic rating support measures and allowances or else about reducing rate rebate.

40. While the absolute number of responses was low, this is fairly typical for consultations of this nature and in this area of policy. The majority, however, were from well informed umbrella groups. The Department is satisfied that a broad enough spectrum of opinion was represented through the responses received in the preliminary consultation and that this is sufficient to inform policy direction for this consultation paper.

41. Alongside the full report containing a summary of all the responses received are the individual consultation responses which can be accessed at:

http://www.dfpni.gov.uk/rating-review/index/rate_rebate-replacement_arrangements/rate_rebate_replacement_arrangements_consutlation_responses.htm

**Committee for Finance and Personnel**

42. The Department of Finance and Personnel has engaged closely with the Committee for Finance and Personnel through evidence sessions and written correspondence at various stages; before, during and after the preliminary consultation.

43. The Committee also undertook its own engagement with key stakeholders from the advice sector as part of its research. This has been helpful and the Department welcomes the proactive approach taken by the Finance Committee in this important area, which has informed the drafting of this consultation document.

44. The Committee advocated a staged approach to policy but pointed out that it was unable to make any further comment during the preliminary consultation stage until it had the opportunity to consider more detailed impact assessments, costings, and policy modelling.

45. This consultation paper presents detailed analysis to help the Committee and consultees form a view on the future of rates support.

## SECTION 4: PREFERRED APPROACH

46. As explained above the preliminary consultation explored the direction of high level policy for continuation of rate support for households post April 2014.

**Overview of Preferred Approach**

47. The majority of organisations who responded, particularly from the advice sector, were in favour of **Option 1 / Sub-Option 1.1** within the report. That was the broad retention of existing levels of support provided under the current rate rebate scheme, suitably modified to take account of the Universal Credit environment, with the funding shortfall made up through savings made in removing or reducing other rating support measures and allowances for households: the means tested 'top up' low income rate relief scheme, or one or other of the targeted forms of non-means tested support, such as Maximum Capital Value, Lone Pensioner Allowance, Disabled Persons Allowance, etc.

48. The Department broadly accepts the retention of existing rate rebate, modified for Universal Credit, coupled with the reduction of other support, as being the 'least worst' approach.

49. In the current policy context the Department is of the view that this would represent the best way forward in terms of ensuring that the most vulnerable and least able to pay rates would continue to be protected within the limited funding available. Nevertheless, choices made around these other rates support measures may involve loss of entitlement for some households.

50. Given the time needed to finalise policy, make the necessary administrative changes and last but not least prepare affected

ratepayers for change, it is likely that the earliest this can be done is April 2015.

51. Such an approach would still provide Northern Ireland with more generous support levels than exist in many parts of England where Local Authorities have already slimmed down their new localised versions of Council Tax Benefit. Whilst it can be argued that Northern Ireland experiences higher levels of poverty than many other regions of the UK it also needs to be borne in mind that average rate bills here are much lower than average Council Tax Bills, even before domestic water charges that apply throughout Great Britain are factored in.

52. Initial Integrated Impact Assessments have now been prepared for this more detailed consultation and they cover each of the support measures under consideration (see **section 8** for further details).

53. The Department favours a **2 phase** approach to policy development because of the immediate need to modify the main support scheme to allow for the introduction of Universal Credit and to find a way of dealing with rates support claimants in receipt of this new payment. The migration of those on legacy benefits, including Housing Benefit, to Universal Credit is planned to be completed by 2017. It is envisaged however that the majority will be migrated by April 2016 and it is at this point that the second phase approach needs to be in place. The phases are explained in more detail, as follows:

**<u>Phase 1 (from April 2014)</u>**

54. **Phase 1** would commence from April 2014 and would see:

- the continuation of the existing levels of rate support as provided under the current Housing Benefit arrangements via a rate rebate scheme implemented through subordinate DFP legislation[4]; and

- the inclusion of Universal Credit (UC) payment information into the income assessment of the restructured DFP rate rebate scheme (akin to the default schemes in many parts of England).

- the future removal of the low income rate relief scheme enhancement in order to allow the core rates support to be funded in full through DFP legislation and to allow for the operation of one scheme which is clearer for claimants and administratively easier.

55. The Welfare Reform Bill provides powers to take the main rate rebate scheme out of social security legislation and 're-house' it within rating legislation. This will allow the existing means test, including current passport arrangements for those remaining on a legacy benefit to be retained at least until April 2016.[5]

56. Under the **Phase 1** proposals the core rate rebate scheme would continue to apply to people of working age and pension age as it always has done, although it would be adjusted to treat Universal Credit as a form of income in due course (see **Section 6**).

57. The Department does however recognise the fact that during **Phase 1** some people of pension age who do not qualify for rate rebate because their income and/or savings are beyond the limits

[4] Adjustments to current enabling powers are contained within the Northern Ireland Welfare Reform Bill.

[5] That date will be in line with the proposed extension in the length of the current Assembly term by one year to 2016 proposed in The Northern Ireland (Miscellaneous Provisions) Bill https://www.gov.uk/government/news/northern-ireland-bill-published

for the main scheme may be affected differently should the top up relief scheme be removed. This is due to the considerable pensioner enhancements that were applied to that scheme when it was first implemented under Direct Rule. Since then, however, the lone pensioner allowance and the lower valuation cap have been introduced by the Assembly which has helped rebalance the system in another way for pensioners who are not on the lowest incomes, or who may be relatively asset rich but income poor.

**Phase 2 (circa April 2016 onwards)**

58. Such an approach would allow the Northern Ireland Executive time to develop a properly redesigned Universal Credit-compatible scheme, utilising Universal Credit and State Pension Credit information Gateways, to a timescale suited to Northern Ireland's circumstances and timescales, and consult further on that option if required.

59. In the long term this approach should allow the DFP to deliver significant savings for working age claimants by aligning closely with Universal Credit migration, as and when that policy becomes better established for the delivery of rate rebate. A system using Universal Credit and State Pension Credit as the principal information gateways will also make it easier for claimants to access rates support.

60. **Phase 2** would commence once Universal Credit becomes the main income-related benefit (likely to be in and around April 2016). This phase would see a restructured rates support scheme being implemented from that point on with Universal Credit and State Pension Credit acting as potentially the principal information gateways to rate support. In other words, deciding entitlement to rates support using the basic information provided in support of claims for these wider payments.

61. **It would be planned to undertake a further consultation as appropriate on the nature of this phase 2 scheme prior to introduction.**

62. As noted above, it is proposed that **Phase 2** would align with Universal Credit and State Pension Credit changes. The exact point at which it makes sense to move to the second phase will be judged by DFP on the basis of the volume of the Universal Credit and State Pension Credit caseloads.

63. **Phase 2** could be designed to provide more or less the same level of support as the current scheme but, most importantly, would work with Universal Credit. This will aim to minimise administrative intervention in the next budget period, potentially delivering significant administrative savings to DFP in the longer term and ensuring that assessment is proportionate to the level of support provided (currently £500 per year on average, though some claims can be significantly higher).

64. The **Phase 2** policy would remain in place pending any longer term solution that may emerge in the future, in terms of consolidating other non social security benefits over which Northern Ireland has policy discretion. Indeed, the UK Government will be undertaking an Independent Review of the various localised Council Tax support schemes in 2016[6] and Northern Ireland is likely to be within its scope in terms of our rate support scheme. As the longer term position is uncertain, it is important that the focus of this consultation is on the interim period, the next 3 to 4 years.

[6] The Local Government Finance Act 2012 (section 9) requires independent reviews of localised schemes in GB. It provides for the various localised support schemes throughout GB to be independently reviewed in 2016 with the prospect of bringing them within the scope of Universal Credit.

**Support arrangements**

65. The Social Security Agency in the Department for Social Development will continue to administer existing arrangements in place for Housing Benefit fraud and error for rent, and rate rebate until April 2015. Depending on final form it is likely that until 2016 the rate rebate replacement scheme would also continue to utilise the existing appeals infrastructure so as to minimise impact on claimants.

66. Final support arrangements can only be determined once the outcome of this consultation process is confirmed.

## SECTION 5: RATIONALE FOR PREFERRED APPROACH

67. In the preliminary consultation paper the Executive outlined a number of high level policy options. These were:

- Maintaining the current level of support[7] / removing other forms of support[8];
- Maintaining current levels of support for vulnerable groups and focussing cut on remainder claimants;
- Top slicing or taper support to match budget, either fixed for a spending review period or adjusted annually in line with uptake and budgetary forecasts;
- Introducing a completely new income based scheme.

68. The preferred option, in light of the preliminary consultation responses, is a mixture of the first and second points for **Phase 1** before moving into **Phase 2** which will see a new income based / passported scheme having to be developed that will align directly with Universal Credit once Universal Credit has firmly established itself.

69. The useful points made during the consultation by the NI Law Centre and the Institute for Fiscal Studies on the subject of Marginal Deduction Rates will be fully addressed in any **Phase 2** policy.

70. **Phase 1** is an interim position and it is accepted that, while Universal Credit is phased in, there may be cases when rates support does not correlate exactly with the work incentive under

[7] Option 1 in Preliminary Consultation
[8] Sub-Option 1.1

Universal Credit. The Department will however seek to minimise any mismatch that may arise, particularly in the way Universal Credit is treated as income for the purposes of the rate rebate means test.

71. The Department notes however that the issue of misalignment between rates support schemes and Universal Credit is inherent in the UK Government's decision to leave rates and Council Tax support outside Universal Credit. The Resolution Foundation's study "*No Clear Benefit*" stated that in GB:

*"In future years there is a very real possibility that new systems of local Council Tax support could undermine, though not eliminate, the intended improvements to work incentives that the government's Universal Credit (UC) scheme is intended to deliver. The government has made much of the fact that, under UC, there will be "virtually no households" that face Marginal Deduction Rates (MDRs) of over 80 per cent, meaning that virtually no one will lose more than 80 pence of each additional pound they earn through taxes and withdrawn benefits (as opposed to MDRs of up to 96 per cent for some under the current system).*

*Yet this is true only if Council Tax support is ignored. Once Council Tax support has been included, the MDRs of most households receiving both UC and Council Tax support (around 620,000 CTB claimants or 9 in 10 of every current claimant in employment) will rise to around 81 per cent – extremely high rates, even if not quite as high as the worst experienced under the current system. Moreover, withdrawal rates could easily rise further if local authorities decide to modify their local Council Tax Support schemes to cope with changing local circumstances and financial pressures. This is the necessary flipside of allowing a complicated patchwork of local systems to influence work incentives."*

**Proposal to remove the Low Income Rate Relief Scheme**

72. As stated in **Section 2** the Executive is faced with a 10% cut in funding for rates support alongside an AME to DEL template. To sustain the current regime the Department would need to avail of the previous Executive agreement (last year) to subsidise the shortfall for a period of no more than 24 months (i.e. to 31 March 2015), and to extend this until the end of **Phase 1**.

73. There is an option to subsidise some of the shortfall after 1 April 2015 for an additional period (£6.7m per annum on basis of 2012/13 awards) by cutting the supplementary low income rate relief at the earliest opportunity. Such a change would need to take into account the need for adequate notice for claimants.

74. Even with any future removal of that scheme Northern Ireland would still have a more generous support regime than that which exists in GB, with the core rate rebate scheme being retained in full for the most vulnerable households (in England many local authorities are already cutting their equivalent core schemes by 10%).

75. It is worth noting that while the Institute of Fiscal Studies did not directly advocate the removal of the low income rate relief they did suggest that the merging of the rates component of Housing Benefit with the supplementary low income rate relief to avoid confusion for claimants.

76. Although the removal of what amounts to a local “top up” scheme seems a logical thing to do when faced with a 10% cut in overall funding for the main rate rebate scheme, it is not an easy choice to make. Around 40,000 ratepayers benefit from the scheme; some gaining supplementary support, others get it on its own. If

the scheme were not removed then in all likelihood those who would no longer be eligible for a full rate rebate under the new rate rebate scheme would simply be picked up by Low Income Rate Relief thus perpetuating the funding gap.

77. A range of real life illustrations are provided at **Annex D** to help illustrate the effect of such a cut.

78. It is also worth noting that the low income rate relief scheme was introduced under direct rule (coming into operation in April 2007) and it was always intended to be subject to tight controls which were responsive to the resources available to the incoming Executive. In the Equality Impact Statement that accompanied the Rate Relief proposals it was acknowledged at that time that, *"to protect the interests of other ratepayers, a cap may be placed on the total amount of relief that can be provided as a percentage of domestic revenue*", and the enabling power was designed to specifically "*set an overall limit for the relief scheme*" and "*review and set new assessment criteria on a regular basis*".[9]

79. In addition it is worth noting that the original intent of that scheme was cited in the Equality Impact statement as being "*to address a shortcoming in the rating system in Northern Ireland where there are virtually no reliefs beyond those available through the housing system*".[10] This is no longer the case given the addition of both the current Maximum Capital Value of £400,000 (2008) and Lone Pensioner Allowance (2008) since that statement was made.

**Retention of non means tested support**

80. The Department has given consideration to either removing or reducing non-means tested support as an option to help subsidise

[9] http://www.dfpni.gov.uk/rating-review/domesticreport-2.pdf
[10] http://www.dfpni.gov.uk/rating-review/domesticreport-2.pdf

the shortfall. However, the Department does not favour this course of action. This is because many of these rates support schemes have a distinct policy rationale to support their retention.

81. In particular the current Maximum Capital Value and Lone Pensioner Allowance are measures developed and implemented under devolution to help moderate the new domestic rating system introduced under Direct Rule. They are policies unique to Northern Ireland to address specific issues identified in the Executive's Review of Rating. In addition the concept of the maximum capital was one brought about within the context of the St Andrews Agreement negotiations. These points are developed further in the following paragraphs:

**Lone Pensioner Allowance (LPA)**

82. Lone Pensioner Allowance (LPA) was introduced by the Executive as a result of evidence which showed that older (aged 70 or over) pensioners who lived alone were less inclined to claim means tested support through the rate rebate scheme or low income rate relief. The scheme was consulted on following the Executive Review of Domestic Rating and is considered to be a specific targeted measure that has an immediate and positive impact despite a relatively modest cost.

83. LPA is also awarded after any other reliefs are applied to a rates bill and costs the Executive in the region of £3m per annum. Ministers have noted in the past that LPA is an example of the tangible help that the Executive is providing to one of our most vulnerable groups in society which is of particular value in this current economic climate.

## Maximum Capital Value

84. A Maximum Capital Value ("the cap") within the rating system continues to have a distinct policy rationale in recognition of the fact that it brings the highest bills under the rating system here into line with the average bills in the highest band of the council-tax system. Currently rates liability is capped at £400,000.

85. The Government agreed to introduce the cap as part of the St Andrew's Agreement in 2006. The cap was originally introduced at £500,000 in April 2007. A subsequent review of the rating system resulted in a reduction of the cap to £400,000. Around 5,000 ratepayers benefit from this cap at a cost to the Executive of approximately £3.8m.

86. As part of its consideration of preliminary consultation outcomes the Department has considered the reinstatement of the £500,000 cap. However, this would only represent a saving in the region of £1.5m to the Executive. That coupled with the distinct rationale which supports its retention at £400,000 means that increasing the cap it is not a favoured policy option at this time.

## Disabled Persons Allowance (DPA)

87. Likewise Disabled Persons Allowance (DPA) also has a distinct rationale for retention in that it safeguards against an increase in the capital value associated with adaptations required for a disabled person. DPA has existed in some form for a considerable period of time but was modified in April 2007 when a standard 25% reduction (for all people with a disability and whose property has been modified) was introduced. There was little substantive comment in favour of the abolition of DPA within the preliminary consultation process.

**Issues with "top-slicing" approach**

88. A top-slicing approach does not feature within the preferred policy approach. There are a number of reasons associated with this decision but the Department does not wish to pursue such an option:

- due to the fact that it will lead to small amounts of collection, which could not justify the requisite recovery and administrative costs upon default;
- due to the fact that it is likely to be written off therefore foregoing any savings;
- due to the crude nature of application of a "top slicing approach".

89. The Department is of the view that although this approach is being adopted in England (see **Annex E**) the DCLG funding of £100 million is an influential factor in the scheme designs for Council Tax Reduction which were put in place for April 2013.

## SECTION 6: INCOME ASSESSMENT MODELS

90. Retaining the existing means testing features of the current rate rebate scheme presents a technical but important issue that needs to be addressed. This concerns how Universal Credit payments are treated in the current means tested calculations for entitlement to rate rebate during this interim period.

91. A number of ways have been identified and these are outlined in the following paragraphs. Before getting into the detail it is worth noting how the current Housing Benefit rate rebate system operates.

92. Under the current rules for Housing Benefit if a person is in receipt of an income-related benefit[11] then Housing Benefit will be awarded on the basis of 100% of eligible rent and 100% of eligible rates. These cases are passported to receive full entitlement to Housing Benefit.[12] Therefore it is not necessary to take into account income already allowed for, as this would be double counting.

93. Before Universal Credit takes over, those remaining on one of the income related benefits would continue to be passported onto rate rebate under the new DFP scheme.

94. During this interim period rate rebate claimants who are not in receipt of income related benefit or Universal Credit would be

[11] Income-related benefits are paid to claimants with no income or income less than an 'applicable amount' which is awarded according to the circumstances of an individual case. These benefits include Income Support, Job Seekers Allowance (Income Based) or Employment and Support Allowance (Income Related)).
[12] Subject to deductions for non-dependants where appropriate.

subject to the same rules that govern Housing Benefit, while it still exists[13] and therefore will have to undergo a full means test.

95. Income (which can include tax credits) is compared with an 'applicable amount'[14] which is assessed in accordance with individual circumstances. If income is less than the applicable amount, maximum Housing Benefit is currently payable. If income is greater than the applicable amount a taper is applied to the excess figure and Housing Benefit is currently reduced in line with that taper.

**Methodology**

96. Various models have been examined to address the issues outlined above, in terms of how to treat the new Universal Credit payments within the current means tested calculations for rate rebate entitlement during this interim period.

97. The options have been tested using information from the Family Resources Survey.[15]

98. All analysis is carried out on a full entitlement basis based on the household characteristics recorded in the Family Resources Survey. Not all benefit claimants take up their entitlement to benefit, however, adopting this approach ensures that potential impact is fully scoped.

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[13] Housing Benefit is expected to continue for some categories of claimant until April 2017 at the earliest.

[14] In general terms the amount that the Government determines that you need to live on, on the basis of your particular circumstances.

[15] With the help of the Department of Work and Pensions Policy Simulation Model (PSM). Unless otherwise stated, the modelling in this consultation document is based on the DWP Policy Simulation Model (PSM). All impacts assume Universal Credit is fully implemented. 2014/15 has been adopted and costs are also in 2014/15 prices.

99. One limitation is that sample size will not allow trends to be reported where the pool of evidence is too small to report. However it is considered to be a sufficiently reliable basis on which to develop policy, recognising that any analysis based on sample data, can be subject to some modelling error. The Department would welcome any views that consultees may have on the approach taken to model options.

**Institute of Fiscal Studies Report**

100. In March 2013, during the preliminary consultation process, the Institute of Fiscal Studies published a report entitled "*Universal Credit in Northern Ireland: what will its impact be, and what are the challenges?*"[16]. The report was commissioned last year by the Office of First Minister and deputy First Minister (OFMdFM) under the Research and Information Strategy which aims "*to assist understanding of the extent, distribution and causes of inequality and social exclusion in Northern Ireland society and the consequences of policies and actions aimed at their reduction, and to assess their impact on those affected.*" The report was funded by OFMDFM and the Economic and Social Research Council. All research carried out was completely independent.

101. Chapter 4 of the report was entitled, "*Designing a rate rebate replacement scheme for Northern Ireland in a Universal Credit world*". As such it focused on the interaction of rates support with Universal Credit, although the report also noted the issue of funding shortfall (4.1.3 of the report). The report looked at the current administrative arrangements where housing benefit for tenants (rent and rates) is administered by the Northern Ireland Housing Executive (NIHE) while housing benefit for owner

[16] http://www.ifs.org.uk/publications/6641

occupiers (rates only) is administered by Land and Property Services (LPS).

102. It pointed out that the administration costs could rise on the introduction of Universal Credit; currently the same computer system is being used to administer both components of housing benefit for those in rented accommodation and the same application form used to claim both elements.

103. The IFS report also noted that when support for rent is subsumed into Universal Credit, the current administrative systems will only support rate rebates, leaving the NIHE and LPS both administering rate support. There is also the loss of the current passporting arrangements from one of the current primary means tested benefits and points out that if individuals were subjected to a full means test, the burdens on claimants and administrators would increase substantially.

104. In its findings the report also examined a number of policy options. So as to avoid confusion with the policy proposals being presented by the Department these are presented in **Annex F**.

105. The Department feels that the Institute of Fiscal Studies work was invaluable as well as timely to the policy development process.

**Modelling**

106. During 2014 Universal Credit will start to replace the income-related benefits referred to above[17]. As a fundamental aim of Universal Credit is to provide work incentives, Universal Credit awards will in some cases be much more generous than those in the income-related benefits it will replace ("the legacy benefits").

[17] Income Support, Job Seekers Allowance (Income Based) and Employment and Support Allowance (Income Related)

For reasons of affordability it is not possible to passport all those receiving Universal Credit to rate support (see model 6 below). Furthermore, there are issues around need, if the large numbers of those currently entitled to small amounts of tax credit were to be given full rate rebate.

107. Building on the Institute of Fiscal Studies suggestions, the Department of Finance and Personnel and the Department for Social Development's Analytical Services Unit have undertaken modelling work in order to gain a better understanding of the policy implications by breaking the high level IFS suggestions into possible models. While our modelling options do not mirror the IFS options exactly there is considerable overlap. In addition the Department has developed additional models to draw out ideas as part of this consultation process.

108. The following models offer a number of options for the treatment of Universal Credit in the assessment of a new rate support scheme.

109. **The primary purpose of such models is to illustrate the variation of effects that can occur through the different treatment of Universal Credit within the income aspect of the existing means test for rates support.**

110. **The Department is not limiting its options to the models listed in this paper. It is important to note that as part of this consultation the Department both seeks views <u>and</u> welcomes any other further suggestions for modelling on treatment of Universal Credit income in order to determine the best way to take account of Universal Credit within the current means testing structure.**

**Model 1 - Add full Universal Credit into Benefit Income**

111. As described above no passporting arrangements are included in this model; this model would simply add the entire Universal Credit payment into the income side of the assessment. However this causes a substantial proportion of claimants to lose entitlement altogether.

112. This is due to the fact that in the current system a person receiving a passporting benefit has all other income disregarded. Adding Universal Credit to income which is currently disregarded, and no longer will be, will add a substantial source of new income into the calculations. This will be exacerbated by the fact that the Universal Credit award will contain a housing element which may increase substantially the amount of income to be taken into account against the same applicable amount.

113. The modelling to date has shown that utilising such an approach would be extremely detrimental to claimants and would not serve as a proxy for current arrangements. In total, using the Policy Simulation Model (PSM)[18], it is estimated that 84,000 households / benefit units would come off rates support, and that 31,000 would see a reduction in entitlement. It is estimated that 36,000 households / benefit units would see no change in their entitlement. These figures are premised upon steady state Universal Credit.

114. In the long run the removal of passporting (once legacy benefits are phased out) would mean that the cases receiving full support (due to receipt of a legacy benefit) would be subject to the means test.

[18] The Department of Work and Pensions Policy Simulation Model (PSM). Unless otherwise stated, the modelling in this consultation document is based on the DWP Policy Simulation Model (PSM). All impacts assume Universal Credit is fully implemented. 2014/15 has been adopted and costs are also in 2014/15 prices.

115. Under this model 30% of households would still have a net gain under Universal Credit.

**Model 2 – Exclude Universal Credit Housing Element from the calculation**

116. As shown in Model 1 adding Universal Credit introduces a new source of income to the means test, which in many cases is likely to result in no entitlement to rates support.

117. Excluding the housing element of Universal Credit from the calculation would mitigate this but is not always straightforward, particularly when income exceeds the requirements figure and a taper is applied to the excess. The housing element can therefore be difficult to identify.

118. Provisional modelling suggested that under this model approximately 20,000 households / benefit units would see an increase in entitlement with an average increase of £4.57 per week.

119. Under this model approximately 32,000 cases could however see a decrease in rate rebate entitlement with an average decrease of £5.36 per week.

120. This model leads to a net annual saving in entitlements of £4,289,000.

121. To consider whether loss of entitlement under this model would lead to hardship we have drilled down further in the modelling to look at the cases affected by the decrease to see what effects this had in overall terms once Universal Credit is taken into account.

122. Of 32,000 households / benefit units experiencing a reduction in rates support under this model, further analysis has shown that 80% would still be better off in overall terms due to the welfare reform changes.

**Model 3 – Passport cases with zero earnings taken into account (in the Universal Credit award) to full rates support.**

123. The next two models (3 and 4) use elements of the first two models (1 and 2) and couple them with a passporting mechanism. The first of these would passport cases with “zero earnings” taken into account in the Universal Credit assessment process onto full rates support.

124. Under current rules in cases passported to receive full entitlement to Housing Benefit income already taken into account in the income related benefit assessment is disregarded. However as income-related benefits will cease to exist and will be replaced by Universal Credit the existing passporting arrangements can no longer continue.

125. As noted in Model 2 Universal Credit will include a housing element. The extra source of income will generate losers and some alternative arrangement may be needed to protect these cases.

126. A number of claimants receiving Universal Credit will have no earnings. This model would passport such cases to rates support in the same way as claimants currently receiving an income-related benefit are passported.

127. Those not passported would be subject to the current assessment rules but with Universal Credit taken into account as income including the housing element.

128. Under this model, approximately 20,000 cases see a decrease in entitlement with an average decrease of £6.27 per week. Approximately 12,000 cases see an increase in entitlement with an average increase of £4.82 per week. On the basis of provisional analysis this model leads to a net annual saving in entitlements of £3,560,000.

129. To consider whether loss of entitlement under this model would lead to hardship however we have drilled down further in the modelling to look at the cases affected by the decrease to see what effects this had in overall terms once Universal Credit is taken into account.

130. Of 20,000 households / benefit units experiencing a reduction in rates support under this model, further analysis has shown that 75% would still be better off in overall terms due to the welfare reform changes.

**Model 4 – Passport cases with zero earnings taken into account in the Universal Credit award to rates support excluding the Universal Credit housing element from the calculation.**

131. Model 4 combines options 2 and 3 excluding the housing element and passporting cases with zero earnings.

132. Those not passported due to having earnings would be subject to the current Housing Benefit rules but with Universal Credit taken into account as income, minus the housing element (which is the amount allowed after non dependant deductions have been taken account of).

133. However this model would see varied results for reasons which include the following:

- The majority of cases on income related benefits are out of work and have zero earnings. It is possible to work up to 16 hours a week and claim an income related benefit that passports through to full HB rates entitlement in the current system. In some cases this is due to an amount of earnings being disregarded. Whether these claimants would continue to receive a corresponding amount of rate support will depend on the type of disregard, if any, considered appropriate for the new rates support scheme.

- Winners (Increases in Entitlement) - some households receive lower entitlements to Universal Credit than previously received under Tax Credits. For example cases with capital between £6,000 and £16,000 have their Universal Credit reduced by £1 for every £250 of capital; this rule was not applied previously to Tax Credit customers. Also the withdrawal rate of 65% is higher under Universal Credit than some tax-credit-only cases who previously had a withdrawal rate of 41%. Adding Universal Credit into the means test therefore leads to some households having less income taken into account than previously and they could therefore become newly entitled or see an increase in rates support.

134. Under a combined model with unrounded figures approximately 16,000 cases would see a decrease in entitlement with an average decrease of £4.90 per week. Approximately 23,000 cases see an increase in entitlement with an average increase of £4.58 per week. This leads to a net annual increase in entitlements of £1,398,000.

135. To consider whether loss of entitlement under this model would lead to hardship however we have drilled down further in the modelling to look at the cases affected by the decrease to see what effects this had in overall terms once Universal Credit is taken into account.

136. Of 16,000 households / benefit units experiencing a reduction in rates support under this model, further analysis has shown that

98% would still be better off in overall terms due to the welfare reform changes.

137. In cases that see an increase in net income as a result of the introduction of Universal Credit there will be a reduction in rates support.

138. Adding Universal Credit into the means test therefore leads to some households having less income taken into account than previously and they can therefore become entitled or see an increase in rates support.

**Model 5 - Passport cases with zero income taken into account in the Universal credit aware to full rates support, excluding the Universal Credit housing element from the calculation.**

139. This model is similar to Model 4. Cases with zero income from any source (earned income, unearned income, or benefit income) taken into account in the Universal Credit means test are passported.

140. Those not passported would be subject to the current Housing Benefit assessment rules but with Universal Credit taken into account as income, minus the housing element.

141. Under this model with unrounded figures approximately 28,000 cases see a decrease in entitlement with an average decrease of £5.31 per week. Approximately 21,000 cases would see an increase in entitlement with an average increase of £4.51 per week. This leads to a net annual decrease in entitlements of £2,651,000.

142. To consider whether loss of entitlement under this model would lead to hardship however we have drilled down further in the

modelling to look at the cases affected by the decrease to see what effect this had in overall terms once Universal Credit is taken into account.

143. Of the households / benefit units experiencing a reduction in rates support under this model, further analysis has shown that 87% would still be better off in overall income terms, despite the reduction, due to the wider welfare reform changes.

**Model 6 – Universal Credit - Direct Passport**

144. Another possible option is for a direct passport for all Universal Credit (either where the maximum applicable amount is awarded ("maximum Universal Credit") or where a partial award of the applicable amount is granted ("partial Universal Credit"). This would obviously be the most straightforward process administratively, as an award of Universal Credit would trigger eligibility for full rates support.

145. As Universal Credit steady state caseload will ultimately cover more households, particularly due to work incentives, as well as different households, a passport of maximum and partial cases is not deemed to be desirable due to the fact that it would cause a significant increase in the overall expenditure on rates support. The Department estimates that this could cost up to an additional £70 million at the point of maximum rate rebate coverage (for legacy cases and "new" Universal Credit cases that go beyond current legacy passports).

146. By contrast utilising maximum Universal Credit awards as a passport may serve to leave significant gaps in coverage, particularly since partial recipients of the current legacy benefits receive an automatic passport.

**Model 7 – Passport using Housing Element of Universal Credit**

147. As part of the preliminary consultation process a suggestion was put forward that eligibility for full rate support could be dependent on whether the claimant gets their full eligible rent met by the housing element of Universal Credit.

148. In such a scenario where a working age claimant previously only got a proportion of their eligible rent met, this would be used to calculate what proportion of rate rebate they should get. In order to keep the work incentive inherent in Universal Credit, the rate rebate taper would then be set at a more generous level than the 65% used for Universal Credit purposes.

149. In terms of pensioners, when Housing Benefit is abolished, if there is a housing element in Pension Credit, it should be possible to use the same or similar calculation for those claimants.

150. Such a formula would however not work for home-owners who are working. These will have to be treated separately as they will have no housing element in their Universal Credit.

151. The Department for Social Development have however suggested that due to the Universal Credit methodology such an approach may present a distorted picture of actual entitlement which would be likely to increase the number of claimants entitled to full rates support.

**Overall Income Impact**

152. In addition to the modelling above the Department also commissioned the Department for Social Development's Analytical Services Unit to undertake analysis using an income

impact model[19] to detail in overall terms the effect on claimant income. The effect on overall incomes is detailed and explained in **Annex C**.

## Hardship Provisions

153. It is recognised that whatever model is adopted there may be difficult outcomes for some individuals.

154. In order to provide a safety net for such individuals it is possible that a hardship mechanism could alleviate potential harsh outcomes. Any such fund would be subject to a finite pool of funding and would need to be markedly different from the form of support currently provided through the low income rate relief scheme.

## Method of Payment

155. Under the existing scheme owner occupiers are awarded rate rebate by way of a reduction in rate liability. In other words the rate bill is reduced for those on full rate rebate there is no bill.

156. This is different for those in the private rented sector and housing association tenants who are afforded a choice as to whether a payment is made directly to them or the landlord

157. In the short term (during **Phase 1** of the preferred approach) current arrangements will have to be maintained as Housing Benefit for rates is phased out and new IT systems are developed.

[19] Technical note: the model presented at **Annex C** demonstrates the effect of **UC Income less the Housing element,** and utilises the Excel Hercules model rather than the output from the Policy Simulation Model.

158. Beyond that the Department sees little merit in retaining this degree of flexibility; indeed it will come with a significant cost in added administration with rate rebate operating independently of rent support (which will by then be delivered as part of Universal Credit).

159. For all these reasons the Department would wish to operate rates support for the **Phase 2** system through discounting the rates bill where possible rather than making payments to tenants or landlords.

**Overpayments**

160. As with all “benefit” payments made, there will inevitably be rate rebates which are overpaid to claimants as a result of either fraud or error. Due to the extent of changes within rate rebates, the Department would wish to retain (insofar as it is possible given the wider implementation of Welfare Reform) the current provisions in relation to overpayments, including for the recovery of overpayment of rates support.

161. The Department would intend to both minimise and recover overpayments to the fullest possible extent under the rate rebate replacement arrangements within both **Phase 1** and **Phase 2**.

## SECTION 7: FINANCIAL IMPACT

162. There will be a substantial funding shortfall for the proposed Phase 1 arrangements. In 2014-15 the forecast cost of Rates Rebate is £127.3 million compared to £114.5 million provided by the UK Government. The £12.8 million shortfall will be made up from NI public expenditure as agreed by the Executive back in June 2012.

163. Moving to 2015-16, the latest forecast of the cost of rate rebate is estimated at £132.8 million, compared to £114.5m provided by Treasury; a gap of some £18.3 million.

164. **The extent of the gap in funding will vary depending on the specific model adopted for treatment of Universal Credit as income.** Furthermore (as explained in earlier sections) when Universal Credit awards gather pace the Phase 1 administrative costs will escalate as a manual process are more likely to be required for new Universal Credit claimants seeking rates support as they will not be passported in the same way as legacy benefit cases would have been in the past.

165. When Universal Credit becomes firmly established this will require the design and introduction of a new scheme to align with Universal Credit and State Pension Credit systems. There is no realistic alternative but to draw on information provided through those other two assessment processes if rates support is to be well targeted, minimising the effort of claiming and thus exploiting opportunities to secure substantial administrative savings in the longer term. This will ensure that the limited funding available is used to best effect by maximising support rather it being wasted on administration. Rates support would however operate outside

those two forms of support as it is no longer part of the wider social security system.

166. A **Phase 2** model may also present the opportunity for a scheme to be more easily adjusted and redefined so that it can be better managed from year to year within what is now a relatively fixed budget. This is important because the open ended funding commitment from the UK Government (which guaranteed cover whatever the demand) is a thing of the past and from now on this has to be accommodated within Northern Ireland's public expenditure settlement.

167. Any future reduction in the scope of the scheme that could adversely affect households will be consulted upon in due course. Unless this consultation suggests otherwise, there are no plans to do this yet and before such changes are made they would have to be assessed in the light of the impact of wider Welfare Reforms taking place over the next couple of years.

**Administrative costs**

168. As noted above, retaining the main features of the current system until Universal Credit is firmly established may mean manual processing of rate rebate means test for Universal Credit claimants, which will lead to increased administrative overheads.

169. Work is still at an early stage to determine the associated administration and IT costs and the delivery organisation(s) both during this interim period and in the longer term. As over two-thirds of claims for rates support are currently handled by the Northern Ireland Housing Executive (NIHE) the planned reforms around the provision of social housing, including the outcomes of the review of NIHE, are key considerations.

## SECTION 8: INTEGRATED IMPACT ASSESSMENTS

171. The **Integrated Impact Assessment (IIA)** is a structured way of informing the policy-making process, by identifying the likely impact of a policy change.

172. The initial Integrated Impact Assessment (iIIA) includes:

- an initial Equality Impact Assessment – an assessment of the potential impact on persons of different Section 75 groups;
- an initial Rural Proofing exercise, examining the impact on urban and rural areas; and
- initial New TSN analysis (Targeting Social Need), which examines the impact on deprived communities.

173. In the light of the preliminary consultation, the preferred policy option for April 2014 is the continuation of the existing rates rebate scheme (suitably modified to accommodate Universal Credit referrals in the early stages) and making up a substantial part of the funding shortfall through rationalisation of some other rating reliefs and allowances provided to households. It is accepted however that it may not be feasible to make changes to any of the other forms of rating reliefs in time for April 2014.

174. In line with this direction initial Integrated Impact Assessments have been carried out in respect of all main forms of domestic rates support outside Housing Benefit for rates, namely:

- The Low Income Rate Relief Scheme;
- The Lone Pensioner Allowance;
- The Maximum Capital Value;
- The Disabled Persons Allowance

175. All initial integrated impact assessments, used to inform the approach outlined in **Section 4** of this document will be available at:

[http://www.dfpni.gov.uk/rating-review](http://www.dfpni.gov.uk/rating-review)

176. It should be noted that the assessments are largely based on spatial analysis using data from electoral wards and therefore can only provide an indication of the likely characteristics of individual households. Whilst this is a fairly common approach to social policy analysis it has its limitations. It is important, therefore, that the consultation enriches this initial broadly based assessment.

177. The Department welcomes additional quantitative and qualitative evidence from consultees, if available, to inform the final Integrated Impact Assessment in due course.

178. The remainder of this section provides details on the initial Integrated Impact Assessment associated with the removal of the low income rate relief scheme.

**Removal of Low Income Rate Relief Scheme**

179. **New TSN:** In terms of correlation, the new TSN analysis for the owner-occupier sector shows a negative correlation between deprivation and the average number of claimants. In other words as ward deprivation decreases, the average number of claimants in the ward increases. However, that correlation is very weak. When the proportion of the population of each ward claiming the relief (rather than absolute numbers) is analysed, the same picture emerges – as deprivation increases, the proportion claiming the relief decreases.

180. In terms of the rental sector, the wards with the highest levels of deprivation would be expected to have the highest take-up of Housing Benefit. It is those wards where there is a lower level of deprivation that are likely to have lower levels of Housing Benefit take up, and a greater need for the top up scheme.

181. In statistical analysis terms any proposed changes to the low income rate relief scheme will not have a disproportionate impact on deprived areas. This does not detract from the fact that removal of the low income rate relief scheme will have an impact at individual household level for those who would no longer receive it.

182. These results may seem surprising to some, however, it is the Department's assessment that this is a reflection of the top up nature of the scheme. The most deprived households in NI are fully protected through the rate rebate scheme (formerly part of Housing Benefit) and the low income rate relief scheme acts as a supplement for those who are outside normal entitlement to social security assistance.

183. **Rural Proofing:** As part of this analysis, wards were grouped according to their status as urban, rural or mixed, and the average number of claimants calculated for each group, in the owner-occupied sector and the rental sector.

184. In the owner-occupied sector, the average number of claimants per ward was highest in the mixed urban/rural group, and lowest in the rural group. The urban group had the highest average percentage of the population claiming the relief; the rural group had the lowest.

185. These findings were also reflected in the rental sector, where both the average number of claimants and the percentage of the population claiming relief was again lowest in the rural group.

186. This analysis suggests that urban and mixed areas will feel the impact of the proposal to remove the relief more than rural areas.

187. **Equality Impact Assessment:** For all Section 75 groups in the owner-occupied sector, and the majority of groups within the rental sector, there were not found to be any significant differences in their representation within those wards most impacted and least impacted by the policy proposal.

188. This would indicate that, on the whole, no Section 75 group will be disproportionately impacted above any other group. The one exception is in the rental sector, and those with a community background defined as 'Other or none' – that is, neither Catholic nor Protestant.

189. The Department does however recognise the fact that in the "Age" category there are inherent differences in the make up of the scheme depending on a person's age (whether they have attained the qualifying age for state pension credit). The EQIA work has noted this point.

**Next Steps**

190. **The Department welcomes any qualitative or quantitative analysis that consultees may have, to supplement the Department's initial integrated impact assessment findings.**

## SECTION 9: NEXT STEPS

191. Consultation on the issues set out in this paper will last for 12 weeks, ending on **11 October 2013**. We would welcome your comments on the questions asked throughout the paper as well as any issues that you think have not been dealt with and which you consider should be taken account of in bringing forward the new policy.

192. You may submit your responses in a variety of ways including written correspondence, by fax or e-mail. Written responses should be sent to:

**Rating Policy Division**
**Department of Finance and Personnel**
**3rd Floor**
**Longbridge House**
**20-24 Waring Street**
**BELFAST**
**BT1 2EB**

Comments may also be faxed to:
**Fax: 028 9034 7435**

193. Should you wish to contact us by e-mail, any queries and consultation responses should be sent to: **ratingpolicy.cfg@dfpni.gov.uk**

194. Should you require any further information about this consultation exercise you should contact Rating Policy Division on **028 9127 7606**. The consultation paper may be made available, on request, in alternative languages and formats.

195. It is intended to publish a summary of the views expressed during consultation, following the completion of the consultation process. This, along with individual consultation submissions, will be placed on the Rating Review website http://www.ratingreviewni.gov.uk. It should be noted that your response, and all other consultation responses, may be disclosed on request. **The Department can only refuse to disclose information in exceptional circumstances.**

196. The results of the consultation exercise will be analysed and used to inform the development of the replacement scheme.

197. It is anticipated that any new scheme will need to operate under current primary legislation as amended by the Welfare Reform Bill. New subordinate legislation will be brought forward once final decisions have been reached.

198. Any relevant subordinate legislation would need to be brought forward later this year, with the intention of being operational from **1 April 2014**.

199. The new measures would remain in place until a more long term solution is agreed by the Executive Sub-group.

## ANNEX A – CONSULTATION QUESTIONS

**1. What views do you have on the Preferred Approach put forward in Section 4 of this Consultation Paper?**

**2. What views do you have on the retention of the broad infrastructure for rates support until April 2016 / steady state UC?**

**3. What views do you have on the future removal of the low income rate relief scheme?**

**4. What views do you have on the retention of the other forms of current domestic rates support?**

**5. What views do you have on the treatment of UC as income within the current means test infrastructure?**

**6. What views do you have on the interaction of the models for UC Income with the wider benefits system?**

**7. What preference, if any, do you have in respect of the models outlined in Section 6?**

**8. What views do you have on the development of a hardship fund; do you think this is necessary?**

**9. Do you have any other suggested approaches that the Department could model?**

**10. What views do you have on the way in which rate rebates should be paid; should they be credited off the rate account or would this cause problems for certain individuals or groups?**

**11. Do you have any views on the initial Integrated Impact Assessments carried out by the Department?**

**12. Do you have any qualitative or practical issues that could be considered in order to supplement the statistical analysis carried out as part of the initial Integrated Impact Assessment?**

## ANNEX B – USEFUL LINKS

### 1. Preliminary Consultation Documentation

***Preliminary Consultation Document, January 2013***

http://www.dfpni.gov.uk/rating-review/welfare_reform__rate_rebate_replacement_arrangements_-_preliminary_consultation_paper_-_final_version_2.pdf

***Preliminary Consultation Report, April 2013***

http://www.dfpni.gov.uk/rating-review/rate_rebate_replacement_arrangements_-_report_on_preliminary_consultation_exercise.pdf

### 2. Other Government Publications

***DSD - Northern Ireland Universal Credit Information Booklet, April 2013***

http://www.dsdni.gov.uk/uc-impact-booklet-transitional-protection.pdf

### 3. Research

James Browne, Andrew Hood and Robert Joyce, May 2013, Child and working-age poverty in Northern Ireland from 2010 to 2020, IFS Reports, R78, Institute for Fiscal Studies http://www.ifs.org.uk/publications/6668

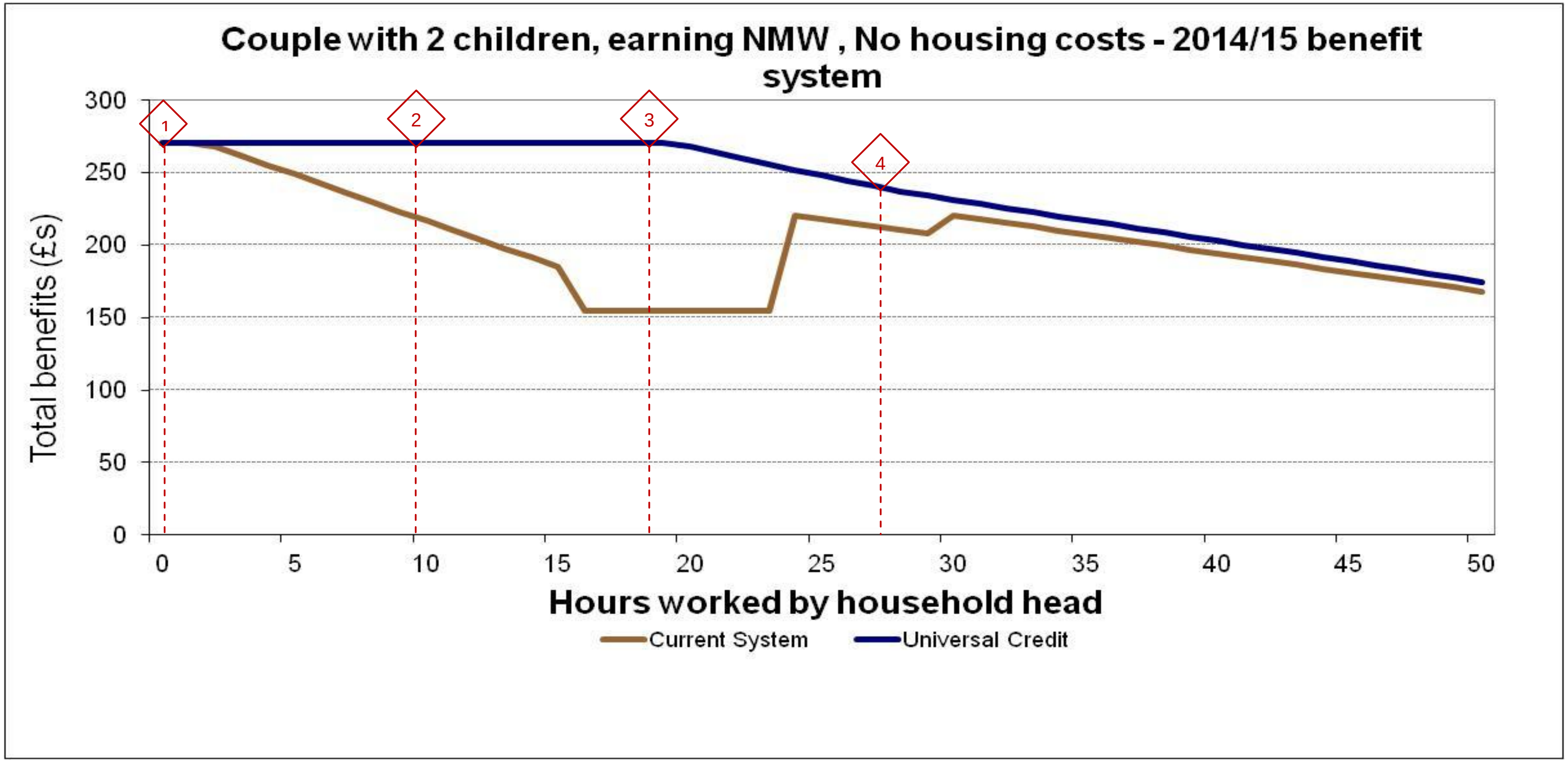
James Browne and Barra Roantree, March 2013, Universal Credit in Northern Ireland: what will its impact be, and what are the challenges?, IFS Reports , R77 , Institute for Fiscal Studies http://www.ifs.org.uk/publications/6641

Sabrina Bushe, Peter Kenway and Hannah Aldridge, March 2013, The impact of localising council tax benefit, http://www.jrf.org.uk/publications/impact-localising-council-tax-benefit

Matthew Pennycook and Alex Hurrellres, No Clear Benefit The financial impact of Council Tax Benefit reform on low income households, http://www.resolutionfoundation.org/media/media/downloads/No_Clear_Benefit.pdf

Professor Jonathan Bradshaw and Poverty and Social Exclusion project team, Consultation Response on Child Poverty Measurement http://www.poverty.ac.uk/system/files/attachments/PSE%20policy%20working%20paper%20No.%208,%20Bradshaw,%20CONSULTATION%20ON%20CHILD%20POVERTY%20MEASUREMENT.pdf

**ANNEX C - MODEL ON THE EFFECT OF UC INCOME LESS THE HOUSING ELEMENT ON OVERALL INCOME**




This graph shows a comparison of working age benefit receipt between the current system of benefits and Universal Credit. The graph shows the change in benefit receipt as one member of a couple with two children increases the number of hours worked at the National Minimum Wage rate. In the example given the household does not have housing costs and no members of the household are disabled.

This household type can expect to be better off under Universal Credit for almost all hours worked at National Minimum wage. If the partner also worked or if the main claimant was earning at a higher hourly rate the increased withdrawal rate of Universal Credit at £0.65 per additional £1 compared to the Tax Credit withdrawal rate of £0.41 per additional £1 could lead to circumstances where the current system of benefits is more generous than Universal Credit. Adding Universal Credit in to the HB Rates means test will therefore increase the benefit income taken into account in the means test meaning the household is likely to see a reduction in Rates Support under the models considered.

**Point 1 –** At zero hours worked, the household would be passported to full entitlement for HB Rates under the current benefit system through the receipt of an income related benefit. In the model under consideration where households with zero earnings are passported they would be entitled to full HB Rates support at zero hours per week whilst claiming Universal Credit. If the household does not have any other form of unearned income or benefit income then they would also be passported under the zero income model at this point.

**Point 2 –** Once a member of the household enters work and whilst working up to 16 hours per week the household would still be eligible to claim income related benefits and therefore would still be passported to receive full HB Rates under the current system. There is a strong disincentive to work this number of hours in the current system of benefits as benefit is withdrawn on a £1 for £1 basis as earnings increase. When Universal Credit is introduced the more generous earnings disregards means that the claimant can work this number of hours and still receive their full Universal Credit award. In the models under consideration, the Universal Credit award plus the additional earnings from work would now be included as income in the HB Rates means test. Cases at this stage can therefore see a reduced entitlement to HB Rates support when compared to the current system but may be better off overall in terms of income.

**Point 3 -** Between 16 and 24 hours the household would be in receipt of Child Tax Credit and Child Benefit under the current system of benefits, with the Child Tax Credit counting towards benefit income in the HB Rates means test. Under the UC Models the full Universal Credit award which due to the improved earnings disregards is significantly more generous, would be counted in the means test. Cases at this stage can therefore see a reduced entitlement to HB Rates support when compared to the current system but are likely to be better off overall in terms of total household income as Universal Credit is significantly more generous than the current system of benefits at this number of hours worked.

**Point 4 –** Once the member of the household works 25 hours or more, they are entitled to claim Working Tax Credits. This boost in benefit income narrows the gap between the current system of benefits and Universal Credit. There is an additional incentive which provides additional Working Tax Credits when 30 hours or more are worked. At this stage the Universal Credit award has began to taper and is being withdrawn at a rate of £0.65 for every additional £1 earned. Working Tax Credit and Child Tax Credit awards are included as benefit income in the current means test for HB Rates, by this stage support for HB Rates would have tapered to zero in the current system and under Universal Credit.

**Hypothetical Household Examples (2014/15 Benefit Rates)**

Below are a range of calculations based on a hypothetical household model. This model compares the current system of benefits with Universal Credit and provides calculated benefit receipt at varying levels of work for a member of the household. HB Rates support has been modelled under Universal Credit with Universal Credit (minus the housing element) being included in the means test for HB Rates.

Claimants in receipt of large amounts of housing support will have a higher award of Universal Credit than those with low or no housing costs, in order to address this and target resources fairly, non renters receive a higher earnings disregard under Universal Credit than renters. For non renters the full Universal Credit award is included in the HB Rates means test calculation. For renters, if the full Universal Credit award including the Housing Element was included in the means test then a significant new source of income would be added compared to the current system (as Housing Benefit is not included in the current means test).

Including the Universal Credit award with the Housing Element in the means test would therefore significantly disadvantage renters when comparing receipt between the current system and modified means test incorporating Universal Credit with many renters having too much income taken into account to receive any HB Rates. It has therefore been proposed in the modelling provided that the Housing Element of Universal Credit is disregarded with the remaining Universal Credit award being included in the means test for HB Rates.

However when renters and non renters are compared, the smaller earnings disregards for renters combined with disregarding the full housing element actually means that in many cases less Universal Credit is taken into account in the means test for HB Rates for renters than non-renters meaning that they have less income brought to account and receive a higher HB Rates award.

Hypothetical Households are examples only and do not show the full range of circumstances/impacts in the population affected by this policy change.

The examples below show the workings for a number of hypothetical households going through the HB Rates means test. Breakdowns are given of the benefit income included in the means test as well as the income not included in the means test (For example Housing Benefit and the Universal Credit Housing Element ), the earnings from work at the National Minimum Wage for a given number of hours and the amount of earnings that are disregarded. This then allows comparison of the HB Rates calculations in the current system versus Universal Credit and the total household income.

**Couple, 2 Children, No Housing Costs, No Disabilities, 20Hrs per Week NMW, £10 per week rates liability.**

| | Current System | Universal Credit |
|---|---|---|
| HB Rates Applicable Amount | £271 | £271 |
| Benefit Income included in Means Test (Child Tax Credit vs Universal Credit) | £120 | £234 |
| Benefit Income Not Included in Means Test (Child Benefit vs Child Benefit) | £34 | £34 |
| Net Earnings (included in means test minus disregard) | £128 | £128 |
| Disregarded Earnings | £27 | £27 |
| HB Rates Support | £10 | £0 |
| Total Income | £292 | £396 |

**Couple, 2 Children, £85 per week rent, No Disabilities, 20Hrs per Week NMW, £10 per week rates liability.**

| | Current System | Universal Credit |
|---|---|---|
| HB Rates Applicable Amount | £271 | £271 |
| Benefit Income included in Means Test (Child Tax Credit /Universal Credit – Housing Element) | £120 | £188 |
| Benefit Income Not Included in Means Test (Child Benefit/Housing Benefit vs Child Benefit/Universal Credit Housing Element) | £119 | £119 |
| Net Earnings | £128 | £128 |
| Disregarded Earnings | £27 | £27 |
| HB Rates Support | £10 | £6 |
| Total Income (Including Housing Support) | £377 | £442 |

**Lone Parent, 2 Children, No Housing Costs, No Disabilities, 15Hrs per Week NMW, £10 per week rates liability.**

| | **Current System** | **Universal Credit** |
|---|---|---|
| HB Rates Applicable Amount | £229 | £229 |
| Benefit Income included in Means Test (Child Tax Credit /Universal Credit) | £120 | £194 |
| Benefit Income Not Included in Means Test (Child Benefit vs Child Benefit) | £34 | £34 |
| Net Earnings | £96 | £96 |
| Disregarded Earnings | £25 | £25 |
| HB Rates Support | £10 | £3 |
| Total Income | £260 | £328 |

**Lone Parent, 2 Children, £85 per week rent, No Disabilities, 15Hrs per Week NMW, £10 per week rates liability.**

| | Current System | Universal Credit |
|---|---|---|
| HB Rates Applicable Amount | £229 | £229 |
| Benefit Income included in Means Test (Child Tax Credit /Universal Credit – Housing Element) | £120 | £173 |
| Benefit Income Not Included in Means Test (Child Benefit/Housing Benefit vs Child Benefit/Universal Credit Housing Element) | £119 | £119 |
| Net Earnings | £96 | £96 |
| Disregarded Earnings | £25 | £25 |
| HB Rates Support | £10 | £7 |
| Total Income (Including Housing Support) | £345 | £395 |

**Single Person, 0 Children, No Housing Costs, No Disabilities, 5Hrs per Week NMW, £10 per week rates liability.**

| | **Current System** | **Universal Credit** |
|---|---|---|
| HB Rates Applicable Amount | £74 | £74 |
| Benefit Income Included in Means Test(Jobseeker's Allowance Income Based vs Universal Credit) | £47 | £73 |
| Benefit Income Not Included in Means Test (zero) | £0 | £0 |
| Net Earnings | £32 | £32 |
| Disregarded Earnings | £5 | £5 |
| HB Rates Support | £10 | £5 |
| Total Income | £89 | £110 |

**Single Person, 0 Children, £85 per week rent, No Disabilities, 5Hrs per Week NMW, £10 per week rates liability.**

| | Current System | Universal Credit |
|---|---|---|
| HB Rates Applicable Amount | £74 | £74 |
| Benefit Income Included in Means Test(Jobseeker's Allowance Income Based vs Universal Credit – Housing Element) | £47 | £73 |
| Benefit Income Not Included in Means Test (Housing Benefit vs Universal Credit Housing Element) | £85 | £85 |
| Net Earnings | £32 | £32 |
| Disregarded Earnings | £5 | £5 |
| HB Rates Support | £10 | £5 |
| Total Income (Including Housing Support) | £174 | £195 |

## ANNEX D – RATE RELIEF EXAMPLES

**See separate document at http://www.dfpni.gov.uk/rating-review**

## ANNEX E – POLICY POSITION IN GB

### Local Authorities

The changes started in most parts of the UK in April this year. All 326 English Local Authorities have designed their own schemes as the Government's default scheme would have been imposed on any Authority failing to do so. The default scheme is based on the previous Council Tax Benefit criteria and does not factor in the 10% funding shortfall.

The Department of Communities and Local Government (DCLG) allocated additional funding of £100m to help cushion the transition to the new scheme.[20] English Local Authorities could benefit from this funding if their scheme satisfies DCLG's "best practice" principles which are:

a. no claimant who is currently on maximum Council Tax Benefit ends up paying more than 8.5% of annual Council tax liability;

b. the rate at which Council Tax support is withdrawn as income rises – i.e. the income taper is no higher than 25% (it was 20% within the former national Council Tax Benefit scheme);

c. there is no sharp reduction in support for those entering work.

The New Policy Institute has compiled a list of all the English council's Council Tax Support schemes. Initial analysis by the Institute has shown that of the 326 new schemes –

- 18% of councils will be making no change, thus absorbing the entire cut into their council budget;
- 82% of councils will be reducing the level of support for council tax benefit recipients; and

[20] The Department of Finance and Personnel had requested a "Barnett consequential" for this funding but Treasury have advised that the funding was made up of recycled funding from DCLGs existing budget allocation.

- 34% of councils intend to introduce a discretionary fund for persons experiencing exceptional hardship.

During the Preliminary Consultation period the Resolution Foundation also published a report providing analysis of GB schemes. This can be accessed at the following link:

http://www.resolutionfoundation.org/media/media/downloads/No_Clear_Benefit.pdf

The Government pledged that Council Tax support in England would not be reduced as a result of this reform and a national regulated scheme has been introduced to this end. However, the Devolved Administrations were not bound to follow that policy.

**Scotland and Wales**

The Scottish administration has agreed to make up the shortfall for the year 2013/2014. The 10% shortfall represents £40m. The Scottish Government is contributing £23m and the Convention of Scottish Local Authorities is contributing £17m. There is an expectation that around £20m will be given to the Scottish Government by the UK Government. This follows the Cabinet Secretary for Finance and Sustainable Growth's announcement in February 2013 that the 2012 budget set aside around £20m in 2012-13 until the Welfare Reform picture becomes clearer.

The Welsh assembly agreed the details of a national scheme on 19 December 2012. The scheme as announced would require every household in Wales to pay at least 10% of their Council Tax bill, with no extra protection for those of pension age. This decision impacted on 230,000 claimants who would be required to make a contribution to their council tax bill for the first time costing them around £67 a year.

However on 19 January 2013, the Welsh Assembly announced an extra £22m of funding, which would enable councils to continue to provide the same level of support from April 2013 as under the current Council Tax Benefit scheme.

**ANNEX F – OPTIONS PRESENTED BY IFS**

**IFS Option 1 - The Default Scheme**: The default scheme is identical to the current Council Tax Benefit scheme but it incorporates rules around how Universal Credit will be treated once families start to receive it. In that event Universal credit is counted as income and the allowances are set equal to a family's maximum Universal Credit entitlement. This system would cost around the same as the current system of rate rebates with roughly an equal number of winners and losers.

**IFS Option 2 – Not counting Universal Credit as income** - The second option considered in the report is to ignore Universal Credit as an income for the purposes of determining entitlement to a rate rebate. The report found that this option would lead to higher levels of rate rebate by those with large amounts of unearned income and a more generous system of support for childcare costs.

**IFS Option 3 – Ensuring that, wherever possible, entitlement to rate rebates is exhausted at the point where Universal Credit starts to be withdrawn** - In its consideration of this option the report highlighted the fact that one of the main advantages of the introduction of Universal Credit was that it would remove the disincentives to work that exist in the current tax and benefit system. The previous two options would undermine this advantage. In order to avoid this it is suggested that the rate rebate withdrawal rate should be increased to 65% (the same rate as for Universal Credit).

**Merging of reliefs** - In summing up the IFS report also suggested that one change that could be made immediately would be to merge the rates component of Housing Benefit with the supplementary low income rate relief, which would reduce confusion for claimants.

The report also concluded that keeping the local tax support schemes separate from Universal Credit has the potential to undermine two of the key advantages of Universal Credit, namely simplification and stronger work incentives. It does however point out that as domestic rates bills in Northern Ireland are lower on average than Council Tax bills in Great Britain, the issue is less important in Northern Ireland. It concludes however that keeping rate rebates separate makes the overall benefit system more complicated and could lead to the reintroduction of the very high overall withdrawal rates that Universal Credit was supposed to eliminate.

It also acknowledges the fact that the status quo will no longer be an option with the introduction of Universal Credit, as this form of support will need to be addressed within any new system.

## ANNEX G - GLOSSARY OF TERMS

| | |
|---|---|
| **AME** | Annually Managed Expenditure |
| **CLIFF EDGE** | Sharp drop in the level of current support/rate rebate. |
| **DEL** | Departmental Expenditure Limit |
| **DFP** | Department of Finance and Personnel |
| **DSD** | Department for Social Development |
| **GATEWAY** | An access control for receipt of benefit. |
| **INCOME RELATED BENEFITS** | At the time of writing these include:<br><br>Jobseeker's Allowance (income-based element);<br>Income Support;<br>Employment and Support Allowance (income-related element);<br>Pension Credit;<br>Housing Benefit (rent and rates).<br><br>Not all of these benefits will act as a direct passport to rates support at present. |
| **LEGACY BENEFIT** | Legacy benefits as outlined in this paper act as a passport to rates support and include:<br><br>Jobseeker's Allowance (income-based element);<br>Income Support;<br>Employment and Support Allowance (income-related element);<br>Pension Credit (Guarantee Credit). |
| **RING FENCED / RING FENCING** | A portion of budget set aside for a specific purpose. |
| **LPS** | Land & Property Services |
| **NIHE** | Northern Ireland Housing Executive. |
| **PASSPORTING** | A means of awarding a form of support without need for a full application process. |

| | |
|---|---|
| **PRELIMINARY CONSULTATION** | Initial consultation on policy options for rates support. |
| **INTERIM RATES SUPPORT** | Support to be provided following implementation of Universal Credit. |
| **WELFARE REFORM** | Process of reforming the Welfare System; a programme initiated throughout the UK by the Government at Westminster. |
| **UNIVERSAL CREDIT** | Universal Credit (or "UC") is a new single payment for people looking for work or on a low income.<br><br>It will come into effect in Northern Ireland in 2014 and will replace:<br>• income-based Jobseeker's Allowance;<br>• income-related Employment and Support Allowance;<br>• Income Support;<br>• Child Tax Credits;<br>• Working Tax Credits;<br>• Housing Benefit. |