The Income Support (General) (Standard Interest Rate Amendment) (No.2) Regulations 2004 No.1520

EXPLANATORY MEMORANDUM

Laying Authority and Purpose

1. This Explanatory Memorandum is laid before Parliament by Command of Her Majesty, by the Parliamentary Under-Secretary of State for the Department for Work and Pensions.

Description

2. The Statutory Instrument amends the current standard interest rate used in the calculation of housing costs for certain claimants of income support. The same rate also applies in relation to housing costs payable to certain claimants of jobseeker's allowance and state pension credit.

Legislative Background

General

3. This instrument is made in exercise of the powers conferred on the Secretary of State for Work and Pensions by sections 123(1)(a), 135(1),137(1) and 175(1) and (3) to (5) of the Social Security Contributions and Benefits Act 1992 and all other powers enabling him in that behalf.

4. Section 123(1) of the Social Security Contribution and Benefit Act 1992 provides for the setting up of a prescribed scheme for Income Support as one of the income-related benefits created by that Act. The Secretary of State is responsible for the design of the scheme and for determining in regulations the amount payable.

5. The applicable amount payable to claimants of income support may include assistance with housing costs, including an element towards interest payments on qualifying loans The provisions for the calculation of mortgage interest are found in the Income Support (General) Regulations 1987, Schedule 3. The relevant provision that specifies the standard interest rate is paragraph 12(1)(a). This paragraph is referred to in the Jobseeker's Allowance Regulations 1996, Schedule 2, paragraph 11(1) (a) and the State Pension Credit Regulations 2002, Schedule 2, paragraph 9(1) (a), since housing costs are payable to certain claimants of jobseeker's allowance and state pension credit under similar provisions.

Extent

6. The Statutory Instrument applies to Great Britain as responsibility for social security has not been devolved to either Scotland or Wales

Policy Background

7. The standard interest rate was introduced in October 1995 as an administrative easement in a highly complex area of benefit calculation, that had been the subject of critical reports by the National Audit Office and Public Accounts Committee. After detailed discussions with the Council of Mortgage Lenders, it was agreed that the standard interest rate would be set around the average rate of interest charged by lenders. It is based on the weighted average of basic rates charged by the top building societies. These rates are calculated by the Financial Services Authority, and are published on a monthly basis in Table 7.1L by the Office for National Statistics in *Financial Statistics.* A change to the standard interest rate is triggered by a move of 0.25% or more in the published figure.

8. The standard interest rate is used in the calculation of mortgage interest payments for certain claimants in receipt of income support, income-based jobseeker's allowance and state pension credit. The current rate is 5.33%. A change has been triggered and the new rate will increase to 5.59%. This change is beneficial and will result in increased benefit payments for mortgage interest for claimants who fulfil the qualifying conditions for help towards their eligible housing costs.

Consultation

9. The Social Security Advisory Committee were consulted and agreed that the proposal regarding the amendment to the existing Regulations did not need to be formally referred to them.

Financial Effects

10. There is no impact on the costs of business and a regulatory impact assessment is not required. There is no impact on the voluntary sector. There is a cost to the Exchequer as a result of the increase in benefit payments.

Contact .

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