

EXPLANATORY MEMORANDUM TO
THE SOCIAL SECURITY (CLAIMS & PAYMENTS) AMENDMENT
REGULATIONS 2007

2007 No 541

1. This explanatory memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of Her Majesty.

2. Description

2.1 The Regulations amend the provision imposing a requirement of mortgage lenders to contribute to the cost of the Mortgage Interest Direct Scheme (MID) known as the “transaction charge”. From 1 April 2007 the charge will decrease from £0.51 to £0.47

3. Matters of special interest to the Joint Committee on Statutory Instruments.

3.1 None

4. Legislative Background

4.1 The Mortgage Interest Direct Scheme (MID) was introduced in May 1992 for Income Support (IS), and was extended to income-based Jobseeker’s Allowance (JSA (IB)) in October 1996 and State Pension Credit (SPC) in October 2003. Customers who are in receipt of income-related benefits such as IS, JSA (IB) and SPC can receive help towards their eligible housing costs such as interest on mortgages. Provided their mortgage lender is a member of the MID Scheme, Department for Work and Pensions (DWP) pays the customer’s mortgage interest direct to the lender. In return for receiving direct payments of mortgage interest the lending industry pays a charge for each transaction known as the transaction charge.

4.2 The transaction charge is amended from 1 April 2007.

5. Extent

5.1 This instrument applies to Great Britain.

6. European Convention on Human Rights

- 6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

7. Policy Background

7.1 The MID Scheme allows for benefit in respect of mortgage interest to be paid direct to mortgage lenders on a four weekly basis. The lenders who participate in the MID Scheme are required to contribute towards DWP administration costs and this is known as the transaction charge. These costs are normally reviewed on an annual basis.

7.2 The transaction charge is derived from the DWP's projected costs of administering the MID scheme divided by the projected number of MID transactions. DWP's costs for administering the MID scheme are projected to decrease in 2007/2008, this means that there will be a fall in the transaction charge between the 2006/07 and 2007/08 financial years. Therefore the Regulations provide that the transaction charge is decreased from last year's rate of 51 pence per transaction (applicable from 1 April 2006) to 47 pence from 1 April 2007. The Department consulted the lending industry who confirmed their agreement to the charge. The Social Security Advisory Committee confirmed their agreement to the amending Regulations.

7.3 Benefit Simplification.

The proposed change has no impact on the complexity of the benefits system, nor does it add further complexity to the MID scheme.

7.4 Consultation

An annual review of the transaction charge is carried out in consultation with the Council of Mortgage Lenders (CML) to determine the charge. This process fulfils the Secretary of State's obligation under the Social Security Administration Act 1992 to consult with organisations representing lenders before making any new Regulations to amend the charge. The CML have agreed to the revised charge.

7.5 Guidance.

No guidance is necessary. This only affects a charge that is levied annually between The Department and the Council of Mortgage Lenders (CML)

7.6 Consolidation.

No consolidation of legislation is necessary. This is an annual transaction concerning the Mortgage Interest Direct Scheme (MID) The fee concerned is decided by a pre-determined formula.

8. Impact

- 8.1 These Regulations amend an existing regulatory regime to decrease a fee by a pre-determined formula. A full Regulatory Impact Assessment is not necessary for such legislation.
- 8.2 The impact on the public sector is negligible.

9. Contact

Phillipa Fallowfield at the Department for Work & Pensions Tel: 020 7962 8305 or e-mail: Phillipa.Fallowfield@dwp.gsi.gov.uk can answer any queries regarding the instrument.