EXPLANATORY MEMORANDUM TO

THE SOCIAL SECURITY (FEES PAYABLE BY QUALIFYING LENDERS) (AMENDMENT) REGULATIONS 2014

2014 No. 485

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. Purpose of the Instrument

This instrument makes changes to the provisions contained in the Social Security (Claims and Payments) Regulations 1987 and the Universal Credit, Personal Independence Payment, Jobseeker's Allowance and Employment and Support Allowance (Claims and Payment) Regulations 2013 which place a requirement on mortgage lenders to contribute to the cost of the managed payments to mortgage lenders scheme (MPML), which was formerly known as the mortgage interest direct scheme. This is known as the "transaction charge" which from 1 April 2014, will increase from 35 pence to 40 pence per transaction.

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

None

4. Legislative Context

The transaction charge is reviewed annually. MPML, then known as mortgage interest direct, was introduced in May 1992 for Income Support, and was extended to income-based Jobseeker's Allowance in 1996, and State Pension Credit in October 2003, and income related Employment and Support Allowance in October 2008. Claimants who are in receipt of these income-related benefits can receive help towards their eligible mortgage interest payments (known as support for mortgage interest) which is paid as part of these benefits. Provided their mortgage lenders are members of the mortgage interest direct scheme, DWP pays claimants' mortgage interest direct to their lenders. Help for homeowners in Universal Credit will be paid through the owner occupier housing costs element. In return for receiving direct payments of mortgage interest the lending industry pays a charge for each transaction known as the transaction charge.

5. Territorial Extent and Application

This instrument applies to Great Britain.

6. European Convention on Human Rights

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

7. Policy Background

What is being done and why

7.1 This instrument increases the transaction charge that is payable by lenders from 35 pence to 40 pence per transaction, from 1 April 2014.

7.2 The charge represents the costs related solely to implementing MPML activities on relevant legacy benefit claims, and includes items such as staff and non-staff costs, stationery and postage and relevant IT costs. Universal Credit (UC) was launched in April 2013 and rollout is continuing. We anticipate the UC MPML payments will be very low in 2014/15 and therefore they have not been included in the transaction charge calculation. In addition, costs for processing this small volume of payments are not currently available. The Department calculates the charge on an estimate of actual costs using forecast totals of £1,092,562 and a forecast number of transactions of 2,726,308 for 2014/2015.

7.3 The Department completed the 2014/15 transaction charge calculation which resulted in an overall increase when compared to the 2013/14 transaction charge. The majority of the increase in the 2014/15 charge is due to an IT change which automates processes.

7.4 The MPML scheme allows for benefit in respect of mortgage interest to be paid direct to mortgage lenders on a four weekly basis. Owner occupier housing costs will be paid monthly by MPML in Universal Credit. The level of the transaction charge is reviewed with the Council of Mortgage Lenders on an annual basis and enables the Department to recover its costs for administering the scheme.

Consolidation

7.5 The charge is reviewed annually and is normally subject to change at this review therefore it would not be practicable to consolidate legislation. Information will be available on line via the DWP website in due course. The website is available to the public free of charge: http://www.gov.uk/dwp

8. Consultation outcome

8.1 The amending Regulations only affect mortgage lenders, so the Department has consulted with the organisation representing lenders, the Council of Mortgage Lenders, in accordance with section 15A(2) of the Social Security Administration Act 1992. The Council of Mortgage Lenders has accepted the revised charge. The Department calculates the charge on an estimate of actual costs. Wider consultation would be meaningless and wasteful.

8.2 The proposals for these Regulations were considered by the Social Security Advisory Committee on xxx 2014. The Committee decided that it was not necessary for the proposals to be referred to it formally.

9. Guidance

The Council of Mortgage Lenders will be notified when the regulations are laid; it will advise its members of the new charge. This has no effect on the public and is an administrative charge between lenders and the Department.

10. Impact

10.1 There is no new impact on business or civil society organisation.

10.2 The impact on the public sector is negligible as this only concerns administrative arrangements between lenders and the Department.

10.3 An impact assessment has not been prepared for this legislation.

11. Regulating small business

The legislation does not apply to small business.

12. Monitoring and review

The transaction charge is reviewed annually.

13. Contact

Ruth Greenwood at the Department for Work and Pensions [Tel:0113 2327601] or email: ruth.greenwood@dwp.gsi.gov.uk can answer any questions regarding this instrument.