



House of Commons  
Work and Pensions Committee

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**Changes to Housing  
Benefit announced in  
the June 2010 Budget:  
Government Response  
to the Committee's  
Second Report of  
Session 2010–11**

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**Fourth Special Report of Session  
2010–11**

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## The Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Work and Pensions and its associated public bodies.

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The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume.

Additional written evidence may be published on the internet only.

### Committee staff

The current staff of the Committee are Carol Oxborough (Clerk), Andrew Hudson (Second Clerk), Hanna Haas (Committee Specialist), Laura Humble (Committee Media Adviser), James Clarke (Inquiry Manager), Sonia Draper (Senior Committee Assistant) and Hannah Beattie (Committee Assistant)

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## Fourth Special Report

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On 22 December 2010 the Work and Pensions Committee published its Second Report of Session 2010–11, *Changes to Housing Benefit announced in the June 2010 Budget*, HC 469. On 9 March 2011 we received the Government's Response to the Report. It is reproduced as an Appendix to this Special Report.

In the Government Response, the Committee's conclusions and recommendations are in bold text. The Government's response is in plain text.

## Appendix: Government response

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### Introduction

1. The Government welcomes the Second Report of the Work and Pensions Select Committee on *Changes to Housing Benefit announced in the June 2010 Budget* which was published during the 2010-11 parliamentary session. In particular, the Government welcomes the support of the Committee for its key objective for Housing Benefit reform, to manage the cost and ensure that the cost represents value for money. The wide-ranging reforms the Government will take forward will represent significant challenges in the next few years but also provide opportunities to ensure that the level of support provided is both fair and sustainable.

2. The Government acknowledges the concerns expressed by the Committee regarding the level of funding provided for transition stages of the reform measures over the period of the Spending Review. The Government is providing an additional £190 million over the next four years to support customers during the transitional period, which includes a trebling of the Discretionary Housing Payments fund.

3. The Government welcomes the recognition by the Committee that Housing Benefit has a significant role to play in reducing barriers to work and welfare dependency. These reforms will represent a significant first step to reduce the social and economic costs of benefit dependency for individuals, their families and wider society. In addition, these incentives to employment pave the way for the next step of welfare reform in the introduction of Universal Credit.

### Conclusions and Recommendations

#### *Government's objectives for reform*

**[Paragraph 24] We agree with the Government's objective of managing the costs of Housing Benefit. We also agree that support for low-income families towards housing costs should represent value for money for the taxpayer. We hope that the Government will be able to influence the rent levels of properties in the private rental sector available to Housing Benefit tenants. Further detailed research should be undertaken on this issue as the policy is implemented.**

The Government welcomes the Committee's agreement to one of our key objectives of welfare reform, to manage Housing Benefit expenditure. In real terms the total Housing Benefit bill for working age customers has gone from over £10 billion in 2005–6 to over £15 billion in 2010–11 an increase of 50%. Over the last 10 years average earnings have grown by 11% while the average Housing Benefit award has grown by 40%.

The reforms that the Government is introducing will still enable people in receipt of Housing Benefit to rent a reasonable standard of accommodation, but it is essential that the level of support we provide is at a level that is fair and sustainable to the taxpayer.

Housing Benefit reform must deliver a more robust scheme that is fair to families that pay their own rent and ensures that the housing choices people on benefit make are not out of reach to most people in work.

The Government fully accepts the importance of undertaking ongoing evaluation of the changes. To ensure that Housing Benefit reform is achieving the objectives that have been set, the Government is committed to undertaking a comprehensive review of the changes to Housing Benefit that will come into effect from April 2011. This will include independent, comprehensive primary research to look at the effects on different types of households in a range of areas across Great Britain, including London, the rest of England, Scotland and Wales.

### *Rises in Housing Benefit costs*

**[Paragraph 30] According to the Valuation Office Agency, claimant rents moved in line with changes in the LHA rates in the first three quarters of the period from November 2008. It is only in the last two quarters that average rents for claimants rose ahead of LHA rates. In a period of rapid market change, and a sharp rise in the numbers of claimants in the sector, it is important to ensure that the Department obtains value for money in the Housing Benefit budget. We recommend that the Department undertake further research into the reasons for the increased rent levels and the methodologies used to measure them.**

The Government acknowledges the importance of research into the reasons for increases in rent levels. The Department is continuing to work with the Department for Communities and Local Government and relevant organisations to monitor trends in the housing market which have a potential influence on support for housing costs. The Department will be continuing to explore ways of improving the quality and timeliness of the data available to it, with the aim of widening its understanding of market conditions.

**[Paragraph 35] There is some evidence that the introduction of the Local Housing Allowance has led to a convergence of rents around the level of the LHA. This has involved both upward and downward revisions and has varied between areas, but it is clearly a factor in the rising costs of Housing Benefit.**

The evidence we presented to the Committee in November 2010 showed a modest tendency for rents to move closer to Local Housing Allowance rates over the period April 2009 to August 2010. Since November last year further analysis of related data has been undertaken as part of the Two Year Review of the Local Housing Allowance. The final

report<sup>1</sup> published in February 2011 notes the need for caution because of data limitations, but concludes that there is a slight increase in the proportion of Local Housing Allowance cases with rents clustered within £15 of their Local Housing Allowance rate, from about 52% in November 2008 to about 55% in February 2010.

**[Paragraph 50] We recommend that the Government fully evaluate the impact of the changes to Housing Benefit introduced in 2011, including on rent levels, before introducing the change to using the Consumer Price Index (CPI) for uprating LHA. If uprating using CPI is introduced in 2013, it should be accompanied by an undertaking that the Secretary of State will review the Local Housing Allowance rates in relation to prices in the wider private rental market prior to 2015.**

The Government agrees to the recommendation of the Committee to evaluate the impact of the Housing Benefit changes and is committed to commissioning independent, external research to help us evaluate the impact of the Local Housing Allowance changes coming into effect in 2011. This review will be comprehensive and thorough and be presented to both Houses of Parliament. Initial findings will be made available in spring 2012, with an interim report in the summer and a complete report in early 2013.

The measure to uprate Local Housing Allowance rates according to the Consumer Price Index will be outside the scope of this review and will be taken forward as part of the Welfare Reform Bill introduced in Parliament on 16 February 2011. The Secretary of State will through secondary legislation be able to review rates and, if he considers it necessary, will be able to set rates at a different level than the increases in the Consumer Price Index.

### *Potential for shortfalls*

**[Paragraph 59] It is difficult to predict the precise impacts of the LHA changes in London given the number of factors involved. Nonetheless it is clear that the changes in London will result, as they are intended to, in substantial levels of household movement. The Government has acknowledged this and has increased funding for Discretionary Housing Payments, in order to provide local authorities with the means to assist with the transition. We examine later in this report whether this support is likely to be sufficient.**

The Government acknowledges that the caps will result in some tenants moving from the more expensive areas. However there is already a substantial annual turnover rate of about 40% in the private rented sector, and some of those who will need to move would have done so in any case. In all but three of the most central areas of London at least 30% of properties will still be affordable within Local Housing Allowance rates.

The maximum weekly rates of Local Housing Allowance provide a generous level of support. The maximum rate payable will be £400 a week which equates to annual support for housing costs at over £20,000 a year. A family paying an average proportion of their income in rent would require an income of at least £80,000 a year to be able to afford to pay this level of housing costs.

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<sup>1</sup> Two Year Review of the Local Housing Allowance - A review of the introduction of the LHA arrangements at a national level against the original policy objectives.

### *Impact on different household types*

[Paragraph 64] Concerns have been expressed to us that a few, highly publicised cases of large families in high rent properties in central London are distorting the public perception of the scale of the problem and driving policy changes which affect a much wider range of people. Evidence shows that large families make up a very small proportion of claimants but will be hardest hit by the changes to LHA. Many amongst this group come from ethnic minorities. We have heard that shortfalls between Housing Benefit and rents will be so large for some that evictions are likely and in some cases temporary homelessness. Use of Discretionary Housing Payments will be important in managing the transition of such families. We would like to see an analysis of the effects of the policy on large families during implementation to enable policymakers to respond to any impact on child poverty.

[Paragraph 72] The Government should monitor the cumulative impact of all of the measures on disabled people. It should also carry out an analysis of the availability of affordable and accessible homes for disabled people and work with other government departments and local authorities to address the need for an adequate supply of such housing.

[Paragraph 91] Significant concern was expressed to us that the number of households living in overcrowded properties will increase as a consequence of the reforms. This will not only affect large families, but households of all sizes who try to find new accommodation within their budget. We heard from a witness that, for large families, this might result in the breaking up of the family unit, especially where the families have chosen to live in a multi-generation household as is often the case in ethnic minority families. This would increase the number of claims for Housing Benefit. The issue of overcrowding highlights the need for the Government to thoroughly assess the availability of properties of all sizes in the bottom third of the rental market.

[Paragraph 101] There is inevitable uncertainty over the impact of expected shortfalls on possible levels of evictions and homelessness. Much depends on whether the savings the Government expects to make are achieved through landlords' willingness to renegotiate rents and claimants' ability to find accommodation at the lower end of the private rental market. We welcome the Department's commitment to a full review of the impact of these changes.

The Government acknowledges the importance of undertaking an analysis of the effects of the policy change on particular groups. The Department is still developing the detailed scope of the research that it will undertake in relation to the 2011 Local Housing Allowance measures but the evaluation, through qualitative survey and longitudinal research with claimants, landlords and external organisations, will pay particular attention to the impact in a number of key areas including:

- Homelessness and numbers moving
- The single room rent and Homes in Multiple Occupation
- Greater London

- Rural communities
- Black and Minority Ethnic households
- Families with children, particularly large families or those with multiple risk factors
- Older people
- People with disabilities
- Working claimants
- Landlords
- Housing and labour markets

The research will also consider the impact on vulnerable individuals,

- Financial status
- Health and wellbeing
- Family life (particularly where the move includes a change of school for children).

**[Paragraph 70] We welcome the allowance for an extra bedroom for live-in carers. This is something our predecessor Committee recommended and we fully endorse. However, we would have liked to have seen this provision extended to cover all disabled children and disabled people who need more space for wheelchair access, a guide dog, essential equipment, or a live-in carer, or where a child is unable to share with a sibling due to disability.**

The Government welcomes the Committee's endorsement of the policy to introduce an extra bedroom for non-resident carers. The Government's decision to acknowledge the need for an extra room for these carers within the size criteria for Housing Benefit has to be taken in the context of the tight fiscal climate and the priority this relatively small group has been afforded. It recognises that funding for this particular need has in the past been met through several different sources such as social services and Discretionary Housing Payments. The presence of an overnight carer allows these individuals to live independently and the change simplifies and clarifies the funding arrangements.

Representations made to the Department have mainly concerned people who need help to live on their own. The move away from residential accommodation to independent living has seen an increase in people with more intense care needs requiring this sort of assistance. Where care is required for a child this is more often provided from within the household. Housing Benefit is not designed to meet every individual circumstance and it would be complex to introduce different rules for the situations such as those described by the Committee and to establish a need in each case.

Where the local authority is satisfied that an additional room is necessary as it would be beneficial, that authority can make a Discretionary Housing Payment where they consider



there is sufficient justification for additional payments to meet any potential shortfall between Housing Benefit and actual rent payable. Providing certainty that Housing Benefit will, in future, meet the costs of an additional room for a non-resident carer should help free up funds within Discretionary Housing Payment budgets and allow local authorities to use their discretion to meet the costs in the types of circumstances the Committee describes. Housing Benefit already takes account of resident live-in carers where that carer is not part of the claimant's assessment unit. The Government has no plans to extend this measure further.

**[Paragraph 71] Evidence from the Government's own impact assessment suggested that disabled people might still face shortfalls and might have to move house and have new homes adapted. We would wish to see Discretionary Housing Payments used to avoid disabled people suffering housing disruption.**

**[Paragraph 77] We accept that at retirement many households will review their housing location once they are in receipt of a pension. However, we strongly believe that older people on low incomes who have little opportunity to improve their financial circumstances should not face being made homeless or find themselves in accommodation that risks being detrimental to their health and well-being. We would wish to see Discretionary Housing Payments used to minimise housing disruption for the elderly.**

**[Paragraph 78] The Government should also look at ways of protecting vulnerable older people and ensure that they receive the help they need to find decent alternative accommodation, taking into account proximity to friends, relatives and support networks, should they need this.**

The Government acknowledges the Committee's comment regarding Discretionary Housing Payments. The Government is investing a further £190 million in funding over the Spending Review period to support people during the transition period. This support will include, in England, £10 million from the homelessness grant which has been made available to London local authorities where the shortfalls are greatest to help them to prepare for immediate challenges of the Housing Benefit measures. Trebling of the Discretionary Housing Payments budget is intended to give local authorities the flexibility to sustain some tenancies where more support is needed.

In response to concerns raised over the possible impacts, the Government announced that there would be up to nine months of transitional protection at the existing Local Housing Allowance rate for existing customers. This will help all existing customers affected, including older people, those that are vulnerable and people with disabilities, to have a longer period of time to adjust to their new circumstances. In the longer term, tenants will have the choice of whether to meet the shortfall from other sources of income, or to move into more affordable accommodation.

**[Paragraph 85] Young people will be particularly hard hit by the LHA changes as single people under the age of 35 will only be entitled to the shared room rate which, even when calculated at the median, has been found to be too low to find a decent quality tenancy in many areas. The problem of lack of available accommodation for young people has been acknowledged by DWP, and our predecessor Committee**



**recommended that the level of benefit for young people should be increased. However, the Government's reforms take this in the opposite direction: benefits for young people will be lowered as a result of setting the shared room rate at the 30th percentile and extending the shared room rate policy to young people under the age of 35. We understand the need for savings at a difficult time economically, but it should be considered as an interim measure and the Government should review this policy prior to 2015. At this point, we would like to see a reconsideration of our predecessors' recommendation.**

The move to increase the scope of the shared room rate (now known as the shared accommodation rate to more accurately reflect what it covers) from those aged under 25 to those aged under 35 is being introduced to help contain Housing Benefit expenditure, an area on which the Committee shares the Government's concerns. The shared accommodation rate currently applies to single people aged under 25 and reflects the lower earning capacity of young adults and the fact that most single young individuals live in shared accommodation. The Government does not think it unreasonable to limit Housing Benefit in the same way to those slightly older working age individuals who have recourse to public funds, particularly as many of their contemporaries in work are living in shared accommodation. The shared accommodation rate is also paid to individuals or couples over 25 with no children who live in shared accommodation. Currently just under half of those in receipt of the shared accommodation rate are over 25, reflecting the fact that they are living in shared accommodation rather than self-contained accommodation. Work should be people's first choice and exemptions will remain for the most vulnerable.

The exemptions from the shared accommodation rate ensure that people who are severely disabled and young people leaving care (under age 22) are protected from the restriction. Those who are in supported accommodation or social housing are also not subject to this restriction. Those getting the middle or higher rate care component of Disability Living Allowance, and where no one gets a Carer's Allowance for them, would be exempt from the restriction.

The impact of this policy change on people under the age of 35 will vary considerably depending on their specific circumstances but it has never been the intention that Housing Benefit should fully meet every individual's circumstances. People facing a rent shortfall who are not covered by the exemptions can be considered for extra help from the Discretionary Housing Payment scheme. This allows local authorities to give extra help on a case by case basis to those facing difficulties meeting their housing costs.

As the changes are not due to be introduced until 2012, it is too soon to know how landlords might react. The Department will be working with the Department for Communities and Local Government on the potential impacts of these changes on the supply of such accommodation. This policy will be kept under review as part of normal monitoring and evaluation processes.

### *Potential risk of evictions and homelessness*

**[Paragraph 100] We recommend that the Government obtain information from local authorities about the extent and nature of their reliance on, and procurement of, additional temporary accommodation, if any, inside and outside their local areas.**

The Government appreciates the concerns expressed by the Committee regarding reliance by local authorities on any additional use of temporary accommodation.

The Government already receives information from local authorities about the use of out-of-area procurement activity through various channels including formal data collection in England and through more informal means, such as regular engagement at official level with local authority staff, particularly in London.

The Department for Communities and Local Government collects quarterly statistics from English local authorities on homelessness, which include the extent and type of temporary accommodation they use, and whether the accommodation is within or outside the authority which has accepted a homelessness duty.

The Welsh Assembly Government is aware that there is a fair amount of placement across local authority boundaries in Wales, particularly in the more urban areas. Officials at the Welsh Assembly will consider with the local authority sector the case for introducing the monitoring of cross-boundary placements, taking account of the potential usefulness of the data.

The Scottish Government is aware that local authorities in Scotland sometimes use out-of-area accommodation, often for good reason, but there are no plans at present to capture this data.

**[Paragraph 107] While the Department acknowledges that some households may have to move, evidence suggests that these numbers may be much greater than the Government expects. We have also heard of the difficulty of identifying households who may have to move and that people on Housing Benefit tend to move home less often than low-income working households and often over-stretch themselves financially in order to stay within their community network where possible. The Government should monitor the extent of enforced moves and resulting hardship and increase Discretionary Housing Payments if necessary.**

**[Paragraph 112] The Minister for Welfare Reform emphasised that he is not expecting a substantial increase in homelessness as a result of the reforms. However some witnesses believed that a substantial increase in homelessness was inevitable. The Mayor of London estimates a 50% increase in homelessness at a cost of around £78 million for the additional 5,000 households in London which could potentially be placed in temporary accommodation. If this proved to be an accurate forecast, we would be concerned about the resulting impact on the families affected.**

**[Paragraph 113] We welcome the Minister of State for Housing and Local Government's recent announcement of the Government's commitment to maintaining a robust homeless safety net. Very careful consideration would need to be given to any**

**proposal to amend the statutory obligation on local authorities to house vulnerable people.**

The Government acknowledges the concerns raised by the Committee regarding the estimates produced by some of the witnesses of a substantial increase in homelessness as a result of the measures being introduced in 2011. However, the Government considers that these estimates have been exaggerated.

The transitional measures the Department is putting in place to support both customers affected by the changes as well as local authorities will ensure that eviction will be an absolutely last resort. Over £190 million of extra funding is being provided over the next four years to support the implementation of the Housing Benefit measures. Discretionary Housing Payments can be used to provide additional support such as allowing extra time to those affected to find suitable accommodation or provide longer term support for vulnerable customers. This includes families with multiple risk factors and families with children at critical points in their education. In addition, the introduction of nine months transitional protection will give existing customers more time to adjust to any reduction in entitlement and more time if necessary to find suitable alternative accommodation.

If landlords reduced rents by £10 a week there would be a significant reduction in the number of customers in receipt of Housing Benefit under the Local Housing Allowance scheme that would face a shortfall. In many areas, the proportion of tenants in the private rental sector in receipt of Housing Benefit is such that the downward pressure on rents is likely to be unavoidable. As a further tool to support downward pressure on rents local authorities will now have an additional discretion to pay Housing Benefit direct to the landlord if they agree to reduce their rents to an affordable level.

The Government is committed to maintaining a robust homelessness safety net. The Localism Bill introduced in Parliament on 13 December 2010 set out new freedoms and flexibilities for local government in England, including proposals to allow local authorities to end the main homelessness duty with an offer of privately rented accommodation, without requiring the applicant's agreement. This will allow local authorities greater freedom to make better use of good quality private sector accommodation which can provide suitable accommodation for households accepted as homeless, while at the same time freeing up social homes for people in need on the waiting list. Local authorities will still be required to secure suitable accommodation for households owed the main duty, and can continue to end the homelessness duty with an offer of social housing if they decide that this is appropriate or there is no accommodation available in the private rented sector that is suitable for the applicant.

**[Paragraph 121] We welcome the Department's assurance that it will engage with the Department for Communities and Local Government, local authorities, and the devolved administrations to assess the impact of the changes and provide appropriate support. However, it is essential that the Government considers the wider impact of the Housing Benefit changes on public services. It has been suggested that local authorities will experience increased pressures on their services as a result of these measures. The Government should monitor the costs to local government of the policy changes and be prepared to consider additional funding if necessary to ensure that appropriate support and services can be provided in the areas where people might find new accommodation.**

**We recommend that the Department takes these broader considerations into account when estimating the likely savings to be achieved and overall taxpayer value for money.**

The Government acknowledges the recommendation made by the Committee regarding monitoring of the cost to local government.

The introduction of the changes to Housing Benefit will present significant challenges and opportunities for local authorities and may have an impact on local authority administration costs. The Government is providing local authorities with an additional £2 million to support the implementation activity required for the 2011 Local Housing Allowance measures. The Department will monitor carefully the potential financial and non-financial impact of any new policy changes on local authorities and consider any funding impacts of each proposed change separately. The Government published its *Vision for Adult Social Care: Capable Communities and Active Citizens* in November 2010. This set out how people will be given greater choice and control over the care and support that they need. The Government will work to ensure that the impacts of the Housing Benefit changes do not adversely affect older and disabled people's access to care and support and the future proposals for adult social care, and do not disadvantage the groups affected.

**[Paragraph 128] We agree with the Government's principle that Housing Benefit levels should be appropriate to what is affordable for people on low pay and should represent value for money for the taxpayer. However, we would not like to see Britain reduced to exclusively affluent and deprived neighbourhoods. A number of government departments have an interest in the issue of community cohesion. We recommend that the Government monitors the effect of the Housing Benefit changes on community cohesion and continues to help people on low incomes, both in and out of work, to live in communities which are socially mixed.**

The Government welcomes the Committee's agreement that Housing Benefit levels should be affordable and represent value for money for the taxpayer.

Housing Benefit reforms are not about excluding benefit recipients from affluent areas; the Government is simply ensuring a fairer deal for the taxpayer. Only a small number of people in the most expensive places may have to move and they are only expected to need to move a short distance. The Department will be working with local authorities to ensure these customers are given the support they need.

Widespread areas of low income and deprivation are generally associated with large estates of social housing. In the private rented sector there is usually more of a mixture of households. The Department's Local Authority Omnibus Survey will be used to monitor the impact on community cohesion.

The Department's administrative data and secondary sources will form a key part of the review and be used for examination of key issues such as shortfalls. Research with landlords will explore their rent setting and reactions to the changes; this will be through primary fieldwork with landlords and letting agents in a range of local authority areas. The external research will include working claimants and those on low incomes also through primary fieldwork in a range of local authority areas.

### *Transitional arrangements and Discretionary Housing Payments*

**[Paragraph 140] We welcome the Government's £50 million addition to the funding originally announced for Discretionary Housing Payments (DHP) in the June Budget, which brings the total amount of additional funding for DHP over the Spending Review period to £180 million. We note however, that the sum allocated is intended to provide a solution to a very wide range of identified areas of concern. We would therefore like to see further analysis of the anticipated demand for this funding, compared to the resources available, in order to understand the extent to which this fund can support benefit claimants through the transition period and help avoid evictions. We recommend that DWP carries out robust monitoring of DHP to ensure that any shortfalls and unmet needs are identified and acted upon swiftly.**

The Government agrees with the Committee's recommendation regarding the importance of monitoring use of Discretionary Housing Payments. The Department is revising the guidance on Discretionary Housing Payments to ensure that local authorities can target funding where it will be needed most.

The Department will distribute the additional funding for 2011-12 based on the total losses expected by local authorities due to the Housing Benefit reforms that will come into force in 2011. The data source is the same as that used to produce the July 2010 Impact Assessment. Discretionary Housing Payment allocations to individual local authorities in subsequent years have not yet been agreed. The Department will be monitoring the impacts of reform via the same data source, and this is expected to inform the distribution of funds.

Given that Discretionary Housing Payments are discretionary, the local authority will provide financial assistance based on its assessment of need in each case. The Department does not hold information on reasons for a payment made, but provides Good Practice Guidance.

**[Paragraph 147] Serious concern was expressed when the measures were first announced in the June 2010 Budget both about the inadequacy of transitional arrangements and the timetable for change. This would have meant that some households would potentially have been affected twice in 2011 by the changes to be introduced in April and then in October. We welcome the Government's recognition of the depth of these concerns and its subsequent decision to allow existing claimants a transitional period of at least nine months.**

The Government welcomes the Committee's agreement to the new transitional arrangements. Following advice from the Social Security Advisory Committee and other stakeholders, and to ensure a smooth transition, the Government brought forward the timing of the measure to reduce rates to the 30<sup>th</sup> percentile and gave existing customers up to nine months transitional protection.

**[Paragraph 148] The welcome amendment to the timetable for change does not however lessen the obligation on the Government to support local authorities in communicating the changes to benefit recipients. We believe that it is essential that all households in receipt of Housing Benefit are given clear information about how and when the changes will affect them. This may best be communicated in a letter giving**

**specific details on what the new benefit rate for that household will be; from when it will apply; and, where relevant, the likely shortfall between the rent and the new benefit level.**

The Government agrees with the Committee that it is essential that the Department has an effective communication strategy to ensure that those customers affected by the changes are given as much notice as possible and as much information as possible for them to make informed choices.

The Department is working closely with the 380 local authorities that administer Housing Benefit to ensure that the full range of options for customers facing a shortfall in their rent as a consequence of the changes is publicised, and that people are encouraged to consider the options in good time. In order to give this work the priority it deserves, the Department has set up a dedicated team devoted to implementation of the 2011 reforms. Benefit managers in every local authority have been invited to one of a series of four conferences to be held in Scotland, Wales, North England and London. These conferences aim to help smooth the implementation of the measures to be introduced from April 2011. The Department is also working closely with other government departments, and primary stakeholders such as Citizens Advice, Crisis, Shelter and landlord organisations. The Department acknowledges that local authorities should give specific consideration to the additional support needs of older and disabled people, particularly in ensuring that information is available in accessible formats.

### *Private rented sector and responses to the proposed reforms*

**[Paragraph 160] The Government has suggested that lower benefits rates will not lead to increased levels of evictions and homelessness if tenants are able to make up the shortfall through other income or move to cheaper accommodation. The latter assumes that enough such affordable accommodation is available. However, evidence indicates that, in the context of a shortage of social housing and high demand for rental accommodation, this may not be the case. Tenants may be left with no other option but to accept overcrowded accommodation, or a dwelling that is otherwise unfit, or in a different location. We recommend that the Government carry out a review of how the changes are likely to impact on tenants' ability to access the bottom third of the market. This review needs to be clearly aligned with an assessment of housing supply and demand below the 30th percentile of the market.**

The Government acknowledges the concerns expressed by the Committee and agrees on the importance of research into the ability of tenants to access the bottom third of the market.

The Department is still developing the detailed scope of the research it will undertake. However, it will certainly involve a close examination of the private rental market, to monitor the impacts on supply, rent levels and landlord behaviour, particularly in the bottom third of the market. It is also intended to involve landlords and letting agents directly.

Meanwhile, the Department is working closely with the Department for Communities and Local Government and the central departments to identify specific actions that can be



taken to increase the proportion of the private rented sector that is available to Housing Benefit customers. The increased discretion for local authorities to make payments direct to the landlord is an example of this. We will work with local authorities to ensure as much consistency as possible in the operation of these new arrangements.

**[Paragraph 167] We accept that there will be a response by landlords to the lower LHA rates in terms of lowering rents, but the extent of that response cannot be accurately predicted. Moreover, the landlord response will vary from area to area depending on local market conditions, and the degree to which landlords have choice in securing tenants who do not rely on Housing Benefit, bearing in mind that the proportion of claimants within local private rented markets ranges from less than 10% to over 80%. The Department should monitor the extent to which tenants make up the difference and landlords accept lower rents in particular Broad Rental Market Areas and work closely with other government departments and with local government to ensure that adequate support is in place in areas where more tenants have to move home.**

The Government agrees with the Committee's recommendation regarding the monitoring of the effects of the Housing Benefit changes. The independent review will be comprehensive; particular areas that the research and analysis will explore will be an econometric analysis of the impacts of the measures on markets and landlords

In addition to this, the review will also examine the availability of shared accommodation and options for younger renters and vulnerable groups such as disabled people, care leavers and those leaving homelessness services. The review will also examine landlords and the private rental market, to monitor the impacts on supply, rent levels and landlord behaviour.

A further important part of this review will be work with tenants and the staff of local authorities as well as voluntary organisations to monitor tenants' behavioural responses, operation of the safeguards/Discretionary Housing Payments as well as local authority service provision. We are aiming to involve some tenant tracking elements to provide information on those who choose to move property.

**[Paragraph 179] Some landlords may be willing to reduce rents in return for better security of payment, and landlords also stressed that direct payment would improve their confidence in the Housing Benefit market. It is likely that this would also increase the supply of private rented housing for Housing Benefit tenants. Direct payment to landlords could therefore be a useful bargaining tool for local authorities in trying to secure cheaper accommodation for clients. In that context, we welcome the Government's recent announcement that it would temporarily widen the discretion of local authorities to make direct payments to landlords who are willing to reduce rents to a level that is affordable for claimants.**

The Government welcomes the support from the Committee for its measure to temporarily widen local authority's discretion to make direct payment of Housing Benefit to landlords. The Government accepted the suggestions made by the Committee during the oral evidence hearing on 3 November 2010.



For the private rented sector, safeguards are already in place to identify those customers who are unlikely or unable to pay their rent. As a temporary measure, a new safeguard has been introduced that will encourage landlords to reduce their rents by providing direct payments of Housing Benefit if it would help the customer secure a new tenancy or remain in their current home at a reduced rent. The Department will issue guidance on the operation of the further discretion to ensure that it is operated fairly.

**[Paragraph 180] We note the important principles behind payments to claimants as supported by our predecessors. The Government's plans to introduce a Universal Credit, bringing together in and out of work benefits, will rely on Housing Benefits being paid direct to the claimant. We believe that, both to retain this important principle and to help build landlord confidence in the sector, the Government should promote good practice schemes such as LetFirst in Edinburgh which brings together direct payments to the claimants and rental guarantee for the landlord.**

The Government agrees that good practice schemes such as the Letfirst scheme, operated by the property group Orchard and Simpson in partnership with the City of Edinburgh, demonstrate that local authorities and landlords can work effectively together. Early identification of vulnerable customers can ensure that arrears do not build up and put a tenancy at risk. In the private rented sector, paying Housing Benefit under the Local Housing Allowance scheme directly to the customer has many advantages, including the promotion of financial inclusion. As announced in the June 2010 Budget, we will set the amount we pay to support people in the private rented sector at a level that will generally make the lowest third of market rents affordable. Rates will be set and updated to ensure that the support received is fair but not excessive. As the White Paper states, our aim is to simplify provision for rent support in Universal Credit as much as possible, while protecting potentially vulnerable people from unintended consequences, such as getting into arrears or being made homeless, and also minimising the impact on landlords. These vitally important principles are the subject of ongoing policy development.

### *Addressing barriers to work in the Housing Benefit system*

**[Paragraph 187] One of the Government's stated objectives of the Housing Benefit reforms is to create a level-playing field between households in receipt of Housing Benefits and low-income working households (LIWH). We note that about 10% of LHA recipients are LIWH and that 50% of working people entitled to claim Housing Benefit are not claiming it. We believe that the Government should also recognise that households in receipt of Housing Benefit are also more likely to be older and lone parent households. Evidence also suggests that overall the "typical" levels of rent are quite similar for those receiving and not receiving Housing Benefit.**

The Government notes the Committee's comment regarding the "typical" levels of rent paid by those in receipt of Housing Benefit and low income working households. The reasons why people who are eligible to claim Housing Benefit but choose not to are complex. The low income working household research found that only a few, mostly families, had any experience of claiming Housing Benefit, but previous bad experiences with the system may be deterring them from claiming.

Households in receipt of Housing Benefit in the private rented sector are more likely to be older, have fewer qualifications and be lone parent households than low income working households who are a very diverse group in terms of the type of household and ethnicity. They are best considered as a range, from those who are very similar to households on Housing Benefit, in low paid work and with little prospect of leaving rented housing to those who are passing through at a particular stage of their lives/housing history.

The low income working households research did find that before the introduction of the Local Housing Allowance, the typical levels of rent are quite similar between those receiving and not receiving Housing Benefit. However, the survey undertaken after the introduction of the Local Housing Allowance found that most low income working households pay a rent which is slightly less than the Local Housing Allowance rate set for the property they occupy; the amount paid is usually 90% or more of the Local Housing Allowance rate, except for large properties where it is lower.

**[Paragraph 197] We agree with the Government's objective of trying to address barriers to work in the benefit system. The evidence is very strong that the greatest barrier to employment is the complexity, confusion and limited net gains for claimants arising from a combination of taper rates and earnings disregards for benefits. We therefore welcome the principles behind the Universal Credit as set out in the recent White Paper. We intend to pursue issues arising from the proposals and look forward to seeing more details, including on how housing costs will be dealt with under the new scheme. However, we are concerned that the proposed reforms to Housing Benefit may contradict some of the objectives of Universal Credit. We recommend that the Government allow Housing Benefit to "run on", as people move off benefit and into work, a measure which previously commended support from both sides of the House.**

The Government welcomes the Committee's support of the principles behind Universal Credit. The current benefit system must be reformed to make it fairer, more affordable and better able to tackle poverty, worklessness and welfare dependency. The Government agrees that the complexity of the current system creates barriers to work as it is difficult for customers to know what further help will be available if they start work. Taper rates and earnings disregards currently provide a disincentive for the long term unemployed to get back to work, and for those in low paid work to do extra hours or take on extra responsibility. Universal Credit will tackle those barriers.

Housing Benefit currently helps people over the difficult transition from out-of-work to in-work benefits by paying benefit, at the out of work rate, for four weeks after starting work. The design of Universal Credit will mean there is no benefit transition when people move in to work and there is therefore no need for a benefit run on.

**[Paragraph 223] We are concerned about the potential impact of the 10% Housing Benefit cut on providers of hostels and supported accommodation. This measure is likely to have a negative impact on the financial viability of these providers, forcing them to close facilities or to evict clients on Jobseeker's Allowance. We urge the Department to work closely with other government departments, with local government and with these organisations to ensure that they remain able to provide a place for homeless people to live and support them into work.**

[Paragraph 227] We note that the Government plans to cut Housing Benefit by 10% for those who have been claiming Jobseeker's Allowance (JSA) for 12 months. We recognise that Housing Benefit has an important role to play in the decision to take a job and that the reduction by 10% after a year of job search will increase the net gain to a job seeker, from this lower base, when they eventually find work. Taken together with our proposal to "run on" Housing Benefit, this may provide an improved incentive to work.

[Paragraph 228] A number of concerns have been expressed to us about other possible implications of the proposal to reduce Housing Benefit after 12 months on JSA:

- It risks adding further complexity to the benefits system and thereby detracting from the Government's plans to simplify working-age benefits, by moving to a Universal Credit.
- It is not clear how it fits with the Government's new welfare to work programme. Support from the Work Programme will only be available to many people once they have been claiming JSA for a year. They may therefore lose 10% of their Housing Benefit for being out of work before they have received the additional support they need to find a job which the Work Programme is intended to provide.
- The number of people potentially affected by the 10% Housing Benefit reduction will be larger and more varied than the current Jobseeker's Allowance client group, and will include more vulnerable people. This arises from two changes: the migration of a number of current Incapacity Benefit and Employment and Support Allowance claimants to JSA; and moving lone parents from Income Support to JSA when their youngest child reaches the age of 5, with the accompanying requirement to seek work.
- It does not take account of the variations in availability of employment across different regions of the country, nor of a claimant's particular suitability for the work available or of the greater barriers to work faced by some people, including disabled people, older people and lone parents.

[Paragraph 229] We request that the Government provides us with information on how it plans to address these concerns, in its response to this Report. We would also be interested to hear about alternative measures it would be prepared to consider, which might offer a more nuanced approach, using targeted sanctions for those who refuse to engage in the process of finding employment, rather than a blanket approach for all JSA claimants.

The Government welcomes the Committee's acknowledgement that the availability of Housing Benefit can play an important part in a person's decision to take a job. Housing Benefit ensures people can continue to receive help with housing costs when they move into low paid work, on the same basis as when they are out of work.

Although everyone should be financially better off in work, there is a significant body of research pointing to the fact that changes in benefit levels can affect incentives to find and take-up work. While results between studies vary, there is a general consensus that high

levels of benefit payable to those out of work can mean that the financial incentive to work is reduced. This can be detrimental to employment levels.

Announced as part of the June 2010 Budget, the proposal to reduce Housing Benefit entitlement by 10% for jobseekers after 12 months was intended to provide an additional incentive to take up employment.

The Government received many representations on this proposal, including those made by the Committee in their report, focusing on the potential implications for people actively seeking work. Concerns related, for example, to people who are now claiming Jobseeker's Allowance after many years claiming incapacity benefits and to lone parents transferring from Income Support as their youngest child reaches age seven, reducing to five from early 2012, subject to the passage of the Welfare Reform Bill.

Subsequent to the Budget decision, the Government has agreed to introduce the Universal Credit which will mean that people will always be better off in work, which is a compelling reason to move into work or to increase hours worked. Taken with the new Work Programme, there will be both the incentive and enough support to help people back into sustainable employment. The Government has therefore decided not to introduce this particular change to Housing Benefit.