



House of Commons
Work and Pensions Committee

**Local Housing
Allowance:
Government Response
to the Committee's
Fifth Report of Session
2009–10**

**Third 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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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), Lisa Wrobel (Senior Committee Assistant), Dory Royle (Committee Assistant) and Stephen Price (Committee Support Assistant).

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Third Special Report

On 30 March 2010 the Work and Pensions Committee published its Fifth Report of Session 2009–10, *Local Housing Allowance*, HC 235. On 6 October 2010 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

Introduction

The Government welcomes the Fifth Report of the Work and Pensions Select Committee on Local Housing Allowance which was published during the 2009–10 parliamentary session. The Government notes the acknowledgment by the previous Committee that the Local Housing Allowance represents an improvement on the previous scheme of individual rent determinations calculated by rent officers. Local Housing Allowance rules makes Housing Benefit for private rented sector customers simpler to understand, more transparent and easier to administer.

The Government acknowledges that the Local Housing Allowance has succeeded in fulfilling many of its objectives by giving customers more choice and responsibility over their housing needs; promoting personal responsibility and financial inclusion; and offering transparency in the monthly publication of Local Housing Allowance rates.

The Government is concerned about the high cost of Housing Benefit in general and the Local Housing Allowance in particular. Awards assessed under the Local Housing Allowance rules are over £9 per week more than for customers still on the previous scheme for the private rented sector. It is clear that the overall cost must be controlled and reduced. In the June Budget the Government announced a package of measures, including changes to the Local Housing Allowance that will achieve savings of £1 billion by 2015–16. From 2013, growth will be slowed by uprating Local Housing Allowance rates in line with the Consumer Price Index. The Department believes that the measures being introduced will make Housing Benefit fairer and more sustainable.

Objectives of the Local Housing Allowance

[Paragraph 44] We welcome the underlying objectives for LHA as set out by the Government. We have heard that some are better met in practice than others. The objective of increasing personal responsibility and financial inclusion through direct payments to the tenant has proved to be very controversial. We make a number of recommendations in this report about how this aspect of the scheme can be improved.

While the Government acknowledges that many of the objectives of the Local Housing Allowance have been met, the economic challenges faced now and in the future make it

even more important that we face up to the difficult choices that must be made in relation to Housing Benefit. The Government accepts that these choices will represent considerable challenges but they reflect a commitment to the private rented sector and will make the Local Housing Allowance scheme both fair and affordable for the future.

[Paragraph 45] We also welcome the Government's intention to improve access to work. However, whilst LHA has improved the transparency of the scheme, there is clearly still some way to go to improve claimants' understanding, as misconceptions can still act as a barrier to work. We look forward to the outcome of the Government's consultation on this and other points and we encourage our successor Committee to return to this subject.

[Paragraph 46] We agree with the Government that improved personal responsibility will have a positive impact on work readiness. We make a number of recommendations in this report as to how the Government could better support claimants to achieve this. We also make recommendations on how the Department can directly strengthen the objective of removing barriers to work, which we believe is fundamental to the success of the scheme, for example by placing this objective at the heart of defining the boundaries for Broad Rental Market Areas.

The Government agrees that there is still some way to go in tackling misconceptions about the Local Housing Allowance and reducing the barriers to employment. Many of the misconceptions about Housing Benefit in general, and Local Housing Allowance in particular, are driven by the effects taking employment can have on levels of Housing Benefit and other benefits. Breaking down those barriers is a key element to future plans for welfare reform.

In the recent command paper “21st Century Welfare” the Department set out plans to completely change the benefits system to ensure that people can see the clear rewards from taking work.

For many Housing Benefit customers there is no financial incentive to take employment. If they take low paid work they can only afford to rent a property at the lower end of the market. Local Housing Allowance rates are currently set at the median level which, in some areas, is well above the level people not on Housing Benefit can afford. The reforms already announced in the June Budget will be an important first step in addressing this.

Direct payments—principles

[Paragraph 55] We fully support the objectives behind direct payments to tenants to promote personal responsibility and financial inclusion and, through this, removing barriers to work. We believe direct payments to the tenant should remain the default supported by the necessary financial advice and vulnerability safeguards as discussed in this report. Managing one's own finances is an important element of work-readiness which the Government should aim to support. There is evidence that giving tenants the choice of having rent either paid to them or the landlord may not be a real choice as landlords then tend to demand direct payments to them as a condition of agreeing to the tenancy. Such an arrangement would defeat this important objective of the scheme and help perpetuate benefit dependency.

The Government agrees that the promotion of personal responsibility and financial inclusion are important elements in removing barriers to work and improving work readiness. Paying Housing Benefit direct to the landlord removes the tenant's responsibility for paying their rent. This is an option that does not exist for ordinary working households.

The Department is, however, aware of landlords' concerns about direct payment of Housing Benefit to tenants. The Department is conducting a review of the first two years' operation of the Local Housing Allowance scheme to monitor its impact at a national level. Direct payment to tenants is one of the issues that is being considered by the review. An in-depth focus group study of landlords concerning their attitudes to, and experiences of, the scheme has been included. The review will report by the end of the year.

[Paragraph 60] We seriously question the Government's suggestion to re-introduce tenant choice as to whether the payment is made to them or to the landlord under the condition that energy efficiency standards are met. We believe that this proposal would undermine a number of important objectives for LHA. It would bring back administrative burdens and benefit complexity just removed by the scheme and, most importantly, would undermine the objective of removing barriers to work as set out above. We agree with the witnesses to this inquiry who argued that standards should be improved and energy efficiency targets met, but looking at the objectives behind LHA we think that trying to achieve this through LHA would do more harm than good.

The Government agrees with the Committee recommendations that standards of accommodation should be improved and energy efficiency targets met, but the benefit system is not the most appropriate method of achieving this. One of the key priorities for welfare reform is the simplification of the benefit system and the reduction of costs. Linking direct payment of benefit to landlords to achievement of energy efficiency targets would add further complexities and increase administration costs.

Direct payments—practicalities

[Paragraph 68] We agree with the Government that LHA payments into a bank account are the most secure way of payment, less prone to fraud and financially efficient. Ideally, claimants are able to manage their finances by setting up a standing order or direct debit to pay the rent to their landlord. This represents an important step to improved personal responsibility and job readiness and the majority of claimants seem to have made that important transition.

The Government welcomes the Committee's agreement that payment of Housing Benefit under the Local Housing Allowance scheme directly to bank accounts is an important step to improving personal responsibility.

The Department is encouraging benefit customers to open a basic bank account. This helps them gain access to wider financial services and remove a barrier to taking employment.

[Paragraph 69] We have heard that some people are experiencing problems with setting up a bank account or managing their account, particularly if they have already run into debt. We strongly believe that the policy of direct payments to the tenant is only

working well when these practical problems are addressed on an individual basis. Local authorities should use their discretion as to the form in which they pay LHA.

The Government agrees that direct payment to the tenant works well when practical problems are addressed on an individual basis. Basic bank accounts are available to most customers including those that have run into debt. Many local authorities have put in place arrangements with local banks for tenants to open accounts.

Local authorities do have discretion to decide how they pay Housing Benefit. However, a bank account is a key pathway to social inclusion and the Government strongly believes that payment of Housing Benefit into a bank account should be the primary method of payment.

[Paragraph 70] Paying LHA into the Post Office Card Account would make the system easier to manage for claimants and we recommend accordingly that provision should be made for the Post Office Card Account to accept LHA payments.

The Government notes the Committee's comments on paying Housing Benefit under Local Housing Allowance rules through the Post Office Card Account.

The Post Office Card Account was specifically designed as a mechanism to receive payments administered by DWP, Northern Ireland Social Security Agency and HMRC. There are no plans to include payments of Housing Benefit.

Most people should be able to open a basic bank account which can be used to receive Housing Benefit payments and which has the facility to set up direct debits or standing orders for customers to pay rent directly to their landlords.

[Paragraph 73] The fact that the first LHA payment is paid in arrears makes it difficult for some to manage their finances and has been the subject of concern to some landlords. We recommend that it should be standard practice for local authorities to give the first cheque to the tenants, payable to the landlord. We believe this will give the tenant time to get used to the new scheme and provide the landlord with some confidence in receiving the payment.

The Department issued guidance to local authorities at the end of 2009 and published a good practice guide in May 2010. These highlight the availability of a facility to make the first payment payable to the landlord via a cheque sent to the tenant.

Local authorities are best placed to decide when it would be appropriate to make the first payment this way, and the Government does not believe it would be right to restrict their discretion.

The Committee may be interested to note that the Government intends to amend regulations soon to permit this first payment also to be paid to the landlord by bank transfer, as an alternative to payment by cheque.

[Paragraph 78] We recognise that the cycle of LHA payments (fortnightly, weekly or every four weeks) instead of monthly (when rent is usually due) is making it difficult for claimants to manage their budgets. We recommend that the Department reviews

payment cycles of LHA to avoid an unnecessary burden on claimants and to reinforce the financial capability agenda.

Local authorities determine the cycle of payments for Housing Benefit including payments made under the Local Housing Allowance scheme. Although the Department encourages local authorities to adjust Housing Benefit payments according to rent cycles, some are currently unable to pay benefit calendar monthly due to the limitations of the software packages they use.

[Paragraph 86] We believe the Government should monitor the need for additional advice services to help claimants and provide the necessary funding. There is evidence that at this initial stage of the scheme there is increased need for financial guidance and advice on setting up bank accounts and managing finances. We recommend that new LHA claimants should be a high priority for signposting to financial advice services.

The Government notes the Committee's recommendation that additional advice services are needed in some areas but disagrees that funding needs to be provided. Case studies provided by local authorities for the good practice guide provided clear examples of local initiatives carried out without additional funding that achieve clear results.

The majority of customers in the private rented sector are now receiving Housing Benefit under the Local Housing Allowance scheme. Most of these customers are being paid directly into a bank, building society or credit union account. Over one million customers are now paid under Local Housing Allowance rules. Many local authorities have used the introduction of Local Housing Allowance to build relationships with local banks, building societies and credit unions so that Housing Benefit customers can be provided with clear signposting.

Vulnerable Claimants and rent arrears

[Paragraph 95] We have received mixed evidence on the effect of direct payments to tenants on levels of rent arrears. The availability of data on rent arrears is scarce and the surveys of stakeholder groups are not representative. However, there is welcome evidence that numbers for evictions and homelessness are actually falling nationally. We recommend that the Department commissions a more representative in-depth study on rent arrears, and the reasons for them, to gain a clearer picture of the scale of the problem.

[Paragraph 104] The evidence on the eight week safeguard rule suggests that it is not fully understood and that implementation varies across local authorities. We strongly believe that it is the Department's responsibility to ensure that local authorities understand the rules and implement them correctly. The rules need not change if eight weeks arrears remains the upper limit for when payments must go to the landlord and include the first payment, which is usually paid in arrears. However, local authorities should liaise with landlords and financial advice services to identify those clients at an early stage who are likely to run into arrears and put safeguards in place.

[Paragraph 114] It is a difficult balance to strike for the Department to enhance personal responsibility and to identify vulnerable claimants early in the process to avoid the build-up of rent arrears and possibly even eviction. We believe that in order

to achieve the objective of greater personal financial responsibility it is important that local authorities apply a personalised approach to advising and dealing with claimants. Local authorities should also seek the insight of financial advice services and the voluntary sector to pro-actively identify vulnerable claimants. The onus should not be on the claimant to inform the local authority that they are vulnerable. We welcome the Minister's assurance that the Department will issue further guidance and some best practice examples to local authorities to ensure that good practice is applied more consistently between and within local authorities.

The Government acknowledges that questions have been raised by landlords and other stakeholders relating to the safeguards for customers who are unable to pay their rent. In response to these concerns, refreshed guidance was issued to local authorities at the end of 2009 followed by a good practice guide in May 2010. The Department will continue to emphasise to local authorities the importance of engaging with local landlords and other stakeholders to ensure that they identify cases where payment to the landlord is appropriate.

The eight week rule has existed in law for Housing Benefit claims prior to the introduction of Local Housing Allowance in 2008. The eight-week rule is a fallback position while the safeguards can be applied from the first day of a claim. The Government agrees that local authorities should be encouraged to liaise with landlords and other stakeholders at an early point to identify tenants that are likely to run into arrears.

Broad Rental Market Areas

[Paragraph 131] In summary, the evidence on the existing boundaries for Broad Rental Market Areas suggests that most are working well in terms of the level at which the LHA is set. However, the examples of the Cambridge and Blackpool BRMAs demonstrate that there are some BRMAs within which rent levels vary considerably, with potentially negative consequences for claimants. In Blackpool, the inclusion of the pricier suburbs artificially raised the level of LHA in the inner city. The evidence suggests that this has had adverse implications for business and incentives to work. In Cambridge the inclusion of the low rent rural area around the city prices out people on LHA from living in the higher rent city, with adverse implications for their access to low paid work.

[Paragraph 132] We recommend that the Department asks the Valuation Office Agency to urgently identify and review those BRMAs where rents vary greatly and, as a consequence, potentially distorting the local rental market and increasing barriers to work.

[Paragraph 133] We also strongly recommend that the Department includes access to low paid work as an underlying criterion for setting BRMAs. This would help the scheme to meet the Government's overall objective of helping people out of benefit dependency and into work.

The Government notes the Committee's recognition that most of the existing boundaries for Broad Rental Market Areas are working well. Rent Service Scotland and Rent Officers Wales have already completed a review of their areas. In England there has been a rolling

programme of reviews which is expected to be completed by April 2011. Both Blackpool and Cambridge were recognised as early candidates and reviews have been completed.

The measures announced in the June Budget will bring the housing choices for customers more in line with those who do not claim Housing Benefit. High Local Housing Allowance rates have allowed Housing Benefit customers access to properties that even people with above average incomes could not afford. From April 2013, the Department proposes to relate uprating of Local Housing Allowance to the Consumer Price Index and will look at the areas in which the rates are set in the context of that change.

[Paragraph 145] We are not convinced by the Government's arguments in favour of scrapping the £15 excess entitlement and welcome its decision to review this proposal in the context of its wider consultation on Housing Benefits. We believe that the £15 excess entitlement is a key feature of the scheme and supports the objective of increasing choice for tenants. Also, the £15 excess incentivises tenants to shop around and, through this, mitigates against rent levels coalescing around the LHA rate.

To ensure that the cost of Local Housing Allowance is sustainable in the current fiscal climate, the Government has decided to continue with the previous Government's plan to remove the £15 excess. The Local Housing Allowance has cost much more than was originally predicted and costs must be brought under control.

The Government agrees that entitlement to the £15 excess has provided a limited incentive to tenants to shop around for properties below their Local Housing Allowance rate. At this time, however, the priority must be to reduce Housing Benefit expenditure and for this reason the excess is being withdrawn from April 2011 for new customers, and on the anniversary of their claim for customers currently receiving an excess.

There has been some evidence of rent levels converging around the Local Housing Allowance rate. However, the other measures being taken to reduce rates overall will reduce any impact the removal of the excess may otherwise have in increasing rates.

Impact of LHA rules on large families, disabled people and under 25s

[Paragraph 155] 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 tax payer. This relationship was clearly distorted when LHA was rolled out and a small number of benefit claimants living in large accommodation claimed an amount for rent well out of the reach of most working families. However, it is equally important that the solution to this problem does not undermine other Government objectives on availability and quality of housing, child poverty and race equality. We recommend that the Government monitors the impact of the cap as part of its two-year review of LHA with an open mind to other potential solutions for larger properties.

The Government welcomes the Committee's agreement that Housing Benefit levels should be comparable to what is affordable for most average working households as well as representing value for money for the taxpayer.

In some areas of central London the Local Housing Allowance has given rise to rates which have increased to unmanageable levels. Housing Benefit customers have been able to enter into rental commitments that people earning a reasonable wage would not consider. Recent rates in central London have been as high as £750 per week for a three-bedroom property and, exceptionally, £2000 for a five-bedroom property. These rates are far in excess of rates that most working people or families with average incomes could afford.

The Government has decided that it must take decisive action to put a limit on the amount of rent to be met through Housing Benefit under the Local Housing Allowance scheme. From April 2011, Housing Benefit will only be paid at the up to the four bedroom rate and caps for all property sizes will be introduced so that the highest amount of benefit a family could receive would be £400 a week. This, coupled with the October 2011 change will reduce all Local Housing Allowance rates to the 30th percentile. The result will be Housing Benefit levels which are fairer and more sustainable, and in all but the most central areas of London between 30 and 40% of properties will still be affordable to Housing Benefit customers.

In the longer term greater control will need to be exercised over the growth of Housing Benefit in the private rented sector. To do this the Department will fundamentally reform the way rates are set to ensure that, in future, support for customers living in the private rented sector are kept at more reasonable and realistic levels.

From April 2013 the Department proposes to relate uprating of Local Housing Allowance to the Consumer Price Index.

[Paragraph 167] There is clear evidence that the current LHA rules constitute a real barrier to independent living for disabled people who require an extra bedroom and we believe this requires urgent action from the Department. As a result of the continuing failure to conduct an equality impact assessment and demonstrate compliance with the Disability Equality Duty, the Committee remains very concerned about this aspect of Local Housing Allowance. We strongly disagree with the way in which the consultation on Housing Benefits has put the initial question about this policy and recommend that the Department changes LHA rules as a matter of urgency to allow for reasonable adjustments for disabled people.

The Government agrees that current Local Housing Allowance rules can be a barrier to independent living for disabled people who require an extra room for a carer. For this reason, the Chancellor announced changes to Housing Benefit regulations in the June Budget. From April 2011, the cost of an extra bedroom for those disabled customers or their partners who have demonstrated the need (and do in fact have) an additional bedroom for a non-resident overnight carer will be met. The Government strongly believes in the importance of supporting severely disabled customers to stay in their homes and it is estimated that around 10,000 individuals could benefit from this measure.

[Paragraph 173] The Minister's statement that the Government is not currently looking into changes to the shared-room rate for the under 25s does not sit well with the Department's acknowledgement that there are not enough places available for young people at this rate. We have heard that as a consequence many face shortfalls between benefit and rent, which leaves local authorities and third sector organisations to make

up the rest. We recommend that the Government considers the proposal to allow for the calculation of the shared-room rate for LHA to include the rent for bedsits in order to improve access to accommodation for young people.

The Government notes the Committee's recommendation that the shared-room rate calculation should include the rent for bedsits. The Valuation Office Agency have confirmed that rental data on bedsits is included in the calculation of the shared-room rate; data for studio flats is not used as these are generally only present in major metropolitan cities.