House of Commons
Work and Pensions Committee

The benefit cap

Twenty-Fourth Report of Session 2017–19

Report, together with formal minutes relating to the report

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Report overview

The Department for Work and Pensions decides whether people are entitled to benefits and how much they need to live on. The benefit cap overrides this system and takes some of this necessary support away. It limits the total amount a household can receive in benefits to £20,000 per year for families outside London and £23,000 per year for families in London. The Government justifies this financial shock to families by saying that it achieves three aims: encouraging more people into work; restoring “fairness” to the benefit system, by ensuring a non-working family does not receive more in benefits than a working family gets from going to work; and making financial savings.

However, nearly six years after it was introduced, the cap’s performance against all three aims is disappointing at best. The claim of “fairness” does not hold, as families in work were already better off than similar families who were out-of-work, even without the cap. Nor is it clear that the cap is saving money, as even the small amount the Department claims to have saved—just 0.1% of the total welfare bill—includes only the money it takes from households’ benefit income, and not any of the additional costs created by the cap. Finally, while a small percentage of claimants—just 4.7%—move into work because of the cap, the reality is that the vast majority do not. This comes as little surprise: most people who are capped have already been assessed by the Department itself as not being required to seek work, because they face major barriers to doing so.

The Committee understands the principle of imposing the benefit cap on people who are able to work but are choosing not to. But applying the cap to people who face significant barriers to work is having unintended consequences and causing unacceptable hardship and difficulties for many families. We are hearing harrowing stories from all over the country of people going hungry, parents struggling to feed their children, families shivering in their homes because they can’t afford heating, and tenants building up crippling rent arrears.

Who should be subject to the benefit cap?

The Government told Parliament that the cap was meant for people who could work, but were choosing not to. But in fact the majority of people who are affected by the cap have been assessed by the DWP as not being required to look for work, usually because they are lone parents with young children or have an illness or disability. A policy aimed at people who could work but were choosing not to is now being applied to single mothers with newborn babies and people with serious health conditions, who face significant barriers to finding work. This cannot be what was intended.

The Government has suggested that people could escape the cap in other ways: by moving house, renegotiating their rent or even taking a lodger. These options are, at best, unrealistic. In reality, these households are left with no way to escape the cap.

The Committee is calling on the Government to:

- Apply the benefit cap only to people who are expected to be looking for work (people who are claiming JSA and people who are claiming UC and in the “All work-related” activity group).
Does the benefit cap encourage people to find work?

The benefit cap is designed to encourage people to find work: the main way that households can escape from it is by getting a job or increasing their working hours. But the evidence shows that only a small proportion (5%) of capped households move into work because of the cap. A slightly greater proportion move into work but would have done so anyway, and the vast majority do not move into work at all. Despite these findings—taken from the Government’s own evaluation—Ministers have repeatedly over-claimed the cap’s effectiveness as a work incentive and have relied on statistics that risk making the public think that the cap is more effective than it is. Its claims have twice drawn criticism from the UK Statistics Authority.

The Committee is calling on the Government to:

- Be more careful when using statistics about how effective the benefit cap is at getting people into work, so that it doesn’t confuse the public. The Government’s own evaluation found that only 5% of capped households moved into work because of the cap.

Is the benefit cap fair?

The Government argues that the benefit cap restores “fairness” to the benefit system. It says that this is because 4 in 10 people who are working earn the same amount as the cap, or less. But this doesn’t count the extra income that people who are working get through in-work benefits, like Child Benefit and Housing Benefit. Once the cap is applied, the differences in income between people who are in work and people who are out-of-work can be up to tens of thousands of pounds.

The Committee is calling on the Government to:

- Look again at the cap limits, and include the income in-work families receive from benefits in its calculations.
- Increase cap levels in line with inflation.

Impact on people who can’t escape the cap

The cap works by taking away some of the money that the Department has calculated that people need to live on. Even without the cap, families on benefits have been left behind: because of the freeze on working-age benefits, income has reduced compared to the cost of living. It is therefore not surprising that the benefit cap often leaves people without enough money to meet their basic needs. As a result, many families face unspeakable hardship and are left with the impossible choices of deciding, for example, whether to pay their rent and not have enough to feed their children, or to feed their children and risk losing their homes.

We heard from people who had suffered hardship under the benefit cap. You can see their stories here.
The Committee is calling on the Government to:

- Do more to monitor the impact of the cap, including by finding out whether capped households are building up rent arrears, getting into debt, or going without essentials such as adequate food or heating;
- Regularly collect feedback from local authorities and organisations who support claimants, and use this information to ensure that an adequate safety net exists.

**Temporary accommodation**

People who are classed as homeless are placed in temporary accommodation by their local council. Temporary accommodation can be very expensive, and people have no choice about where they are housed. The high costs of temporary housing can mean that claimants have their benefits capped, through no fault of their own.

The Government has argued that applying the cap to people in temporary accommodation keeps the pressure on local authorities to find them a long term solution. We cannot agree with that argument. It is clearly not the claimant’s fault that their accommodation is significantly more expensive, so it seems ludicrous to apply the cap in these circumstances.

The Committee is calling on the Government to:

- Immediately exempt claimants in temporary accommodation from the cap.

**Universal Credit claimants**

Before Universal Credit was introduced, a household could only have their Housing Benefit capped. Under Universal Credit, however, the cap can be applied not just to a household’s housing costs but to its whole Universal Credit award. This means that the benefit cap can eat deeper into a household’s whole income, including money intended for children. The little money that these households have left can be even further reduced by deductions to their UC awards, which can include the repayment of Advances necessary to tide people over during the five-week wait for their first UC payment. The risk that this leaves even more families facing severe hardship is obvious.

The Government says that this is how the cap is supposed to work. But we don’t believe that it meant to push families into even greater hardship.

The Committee is calling on the Government to:

- Protect some elements of Universal Credit from the benefit cap, to make sure that the household’s basic needs can still be met. This should include a claimant’s standard allowance as well as elements for children and disabled people.

**Universal Credit assessment periods**

Courts have already found that the interaction between how frequently people are paid and when they receive their Universal Credit award can lead to unfair financial losses for
claimants. The way that someone’s paydays and their Universal Credit assessment period work together can mean that people who are earning enough to escape the cap are capped anyway. That can leave them suffering significant financial losses—purely because of a flawed administrative process. This is clearly not how the cap was intended to work.

The Committee is calling on the Government to:

- Urgently find a solution to make sure that claimants are not unfairly capped because of the alignment of their payday and UC assessment period. It should identify all cases where the cap has been applied incorrectly and ensure that claimants are fully compensated.

**Discretionary Housing Payments as a safety net**

The Department provides funding for Discretionary Housing Payments to local councils to help people who are struggling under the benefit cap. But the fact that this support is discretionary means that households can be subject to a ‘postcode lottery’, finding themselves at the mercy of their local council’s policies and decisions. DHPs are often awarded for only short periods of time, leaving a great amount of uncertainty for households and landlords, and do not provide the consistent support that many families need.

The Department has little understanding of how different local authorities are using DHPs, so it cannot know whether its key safeguard is working effectively for capped claimants and their families. The reality is that while DHPs work as a necessary sticking plaster for some families, many families are not getting the consistent support they need. This can be a particular problem in areas with high housing costs, where DHP allocations are more likely to be rationed.

The Committee is calling on the Government to:

- Complete a full review of local authorities’ policies and the different approaches to the provision of DHPs for capped claimants;
- Evaluate how effective DHPs have been as a support for claimants by looking at individual experiences, and produce clearer and more directive guidance to local authorities about the provision of DHPs so that they act more effectively as a safeguard.

**Financial savings**

The Department has repeatedly claimed that the benefit cap is saving money. Its claimed savings of £190 million a year are just 1% of the savings expected from the welfare reforms implemented since 2010. But even these relatively small savings are likely to be an overestimate. Recognising that the cap creates hardship, the Department gives back a significant portion of the money it takes from claimants by providing funding for Discretionary Housing Payments to local councils, to help them support capped claimants. This circular process of transferring public money from one budget to another—while a straightforward administrative issue for the Department—fails to consider the huge impact on families, who are left relying on less stable support; the Department does not
even include the costs of DHPs, including administrative costs, in its figures. Nor does it consider the increased costs to local authorities through temporary accommodation, or the wider costs that hardship created by the cap may have on other public services.

The Committee is calling on the Government to:

- Conduct a full cost benefit analysis of the benefit cap, including the costs of Discretionary Housing Benefits. It should also seek to identify other costs to local authorities, for example, as a result of rent arrears and to identify the costs to the wider welfare system, which are the result of hardship caused by the cap.

**Data sharing**

The work that many local authorities are doing—often at the expense of their own resources—to identify and support capped households is vital to help families mitigate some of the hardship the cap creates. To date, local authorities have been able to target capped households and offer support using Housing Benefit data which indicates which households are subject to the cap. Local authorities told us that they cannot do this for Universal Credit because the Department does not provide them with the equivalent UC data. It is unacceptable that the Department is hindering local authorities’ efforts to provide the support that capped households on UC so desperately need. This places households on UC at a significant disadvantage compared to those on legacy benefits.

The Committee is calling on the Government to:

- As an urgent priority, ensure that local authorities have the UC data they need to continue to support capped households.

**Discretionary Housing Payments: funding for local authorities**

The Government expects local councils to support capped households who struggle financially by using the funding it provides through Discretionary Housing Payments. However, it is clear that a significant proportion of local authorities are having to top-up this funding, which puts pressure on their budgets and diverts funds from services that would be used elsewhere. At the same time, there are other local authorities that seem to have funding going spare.

The Committee is calling on the Government to:

- Work with local government to review the way it calculates individual local authority DHP allocations, so that local authorities have the funding they need to prevent hardship.
1 Introduction

History of the cap

1. As part of the October 2010 Spending Review, the Coalition Government announced plans to restrict the total benefits paid to most people of working age. The cap would limit the total amount of money a household could receive to the average earned income of a working household’s take-home pay. This equated to £500 per week (£26,000 per year) for a family and £350 per week (£18,200 per year) for a single person with no children. The cap was part of a wider series of welfare reforms aimed at making the system “fairer and more affordable”. The Government said that the key aims of the cap were to:

   - Increase incentives to work;
   - Introduce greater fairness between those on out-of-work benefits and taxpayers in employment; and
   - Make financial savings and incentivise behaviours that reduce long-term dependency on benefits.

The cap was first introduced across the UK between April and September 2013.

2. A commitment to reduce the cap from £26,000 to £23,000 was included in the Conservative Party’s 2015 Manifesto. The Summer Budget 2015 confirmed the Government’s intention to reduce the cap for families to £23,000 in London (£15,410 for single people) and £20,000 (£13,400 for single people) in the rest of the UK. The new, lower cap levels were applied to all households that were already capped on 7 November 2016 and were then rolled out across the UK to newly affected households between November 2016 and January 2017.

Original cap

Rationale

3. The policy was introduced to Parliament with an emphasis on fairness: the Government argued that no out of work family should receive more in benefits than the average working family earns. The then Secretary of State for Work and Pensions, Rt. Hon Iain Duncan-Smith, said:

   The principle is that people who are unemployed and on benefits should not be receiving more than average earnings. It is a matter of fairness, so that those who are working hard and paying their taxes do not feel that someone else will benefit more by not playing a full part in society.

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1 HM Treasury, Summer Budget 2015, HC 264, July 2015
2 Department for Work and Pensions, “Benefit Cap: number of households capped to November 2018”, February 2019
3 HC Deb, 9 March 2011, col 889, [Commons Chamber]
He also said explicitly that the cap was intended to apply to people who could go to work:

*If the hon. Lady had looked at what the cap covers, she would know that those on tax credit will be exempt, as will those on DLA, widows and others who are in difficulties. The cap is about those who we believe should be able to go to work but are not doing so.*

The Department reiterated the aim of fairness in its written evidence. It said:

*The Government considers that the cap imposes a reasonable limit on the amount of welfare benefits an out-of-work household should receive; in the Government’s view, this restores fairness between working households and taxpayers and those in receipt of out of work benefits.*

**Who was affected?**

4. Between the 2013 cap’s introduction and November 2016, 84,000 households had their benefits capped at some point. Almost all households affected by the cap (94%) had dependant children. The cap affected mainly single parents and larger families. Single parents are more likely to be affected by the cap because they are less likely to be in employment than parents in a couple, particularly when they have young children. Of the households affected, 56% were single parents, of whom 96% were women; and over three quarters (77%) of all households affected had three or more children. There was a disproportionate impact on households in London. Almost half (44%) of all capped households were located in the capital. In November 2016, just before the lower cap was introduced, 20,000 households had their benefits capped.

**Lower cap**

**Rationale**

5. In its August 2016 impact assessment of the lower cap, the Government argued that the original cap had been successful in getting people into work and that the lower cap was designed to “strengthen” work incentives for those on benefits and help in “tackling the deficit”. It said:

*The objective of the policy change is to build on the successes of the existing benefit cap, as shown by evaluation evidence. We will do this by restricting the total amount of benefits that a household can receive to £20,000 in Great Britain and £23,000 in Greater London (and 67% of these levels for single people without children). By doing this the policy will:*

1. Further improve work incentives for those on benefits

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4 HC Deb, 15 June 2011, col 882, [Commons Chamber]
5 Department for Work and Pensions (BEC0023)
2. Promote even greater fairness between those on out of work benefits and tax payers in employment (who largely support the current benefit cap), whist providing support to the most vulnerable

3. Further reduce benefit expenditure and continue to help tackle the financial deficit.\(^9\)

**Who is affected?**

6. The Government’s August 2016 impact assessment estimated that around 88,000 claimants would be affected by the lower benefit cap once it was fully implemented—64,000 of whom would be newly affected. It said that the new tiered approach, with a cap of £23,000 in London and £20,000 in the rest of the UK, would more evenly distribute its effect across the country. Under the original cap around 40% of capped households were in London, but this was expected to fall to 22% under the lower cap.\(^10\)

7. Following the rollout of the lower cap, the number of households affected by the cap more than trebled. As of November 2018 (the latest data available), 53,000 households were capped under Housing Benefit and 9,800 under Universal Credit (UC). The vast majority of those who had their Housing Benefit capped (79%) were capped only because of the introduction of the lower cap levels. Figure 1 shows the number of households that had their benefits capped at each month from its introduction to November 2018.\(^11\)

**Figure 1: Capped households at each month from April 2013 to November 2018**

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10. Ibid.

8. The lower cap did result in a more even distribution of households affected by the cap across the UK, with the proportion of households affected in London down to 24% in November 2018, compared to 40% before the lower cap was implemented. DWP’s statistics for November 2018 show that the majority of households who had their Housing Benefit capped were still largely single parents (74%), of whom 96% were women. Similarly, the cap was still mainly affecting larger families. In November 2018, three quarters of capped households had three or more children.

**Applying the cap**

9. Whether a household’s benefit income exceeds the cap is determined by adding together the ‘included’ benefits that an individual, their partner and any dependant children are entitled to. It does not include the benefits of non-dependants, such as adult children or friends who live with the claimant. The figure below shows which benefits are included when calculating if a household’s benefits exceed the cap:

**Figure 2: Benefits included in cap calculations**

<table>
<thead>
<tr>
<th>Benefits included in the cap calculation</th>
<th>Some benefits are disregarded for the purposes of the cap calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Bereavement Allowance/Widowed Parent’s/Mother’s Allowance</td>
<td>• Housing costs in respect of ‘supported exempt accommodation’, which include most refuges;</td>
</tr>
<tr>
<td>• Child Benefit</td>
<td>• Special Guardian’s Allowance; and</td>
</tr>
<tr>
<td>• Child Tax Credit</td>
<td>• Child maintenance payments from absent parents.</td>
</tr>
<tr>
<td>• Employment and Support Allowance</td>
<td></td>
</tr>
<tr>
<td>• Housing Benefit</td>
<td></td>
</tr>
<tr>
<td>• Income Support</td>
<td></td>
</tr>
<tr>
<td>• Jobseeker’s Allowance</td>
<td></td>
</tr>
<tr>
<td>• Maternity Allowance</td>
<td></td>
</tr>
<tr>
<td>• Severe Disablement Allowance</td>
<td></td>
</tr>
<tr>
<td>• Widow’s Parent’s Allowance (or Widowed Mother’s Allowance or Widow’s Pension if the person started getting it before 9 April 2001)</td>
<td></td>
</tr>
</tbody>
</table>

Source: GOV.UK, Department for Work and Pensions (BEC0023)

Until November 2016, Carer’s Allowance and Guardian’s Allowance were included in the cap calculations. Since then, households including someone entitled to one of these elements, or to the carer element in UC, have been exempt from the cap.

**Housing Benefit vs UC**

10. The cap operates by applying deductions to a household’s benefits. The way in which this is done depends on the whether the household receives Housing Benefit or UC. For Housing Benefit claimants, the cap is administered by local authorities who reduce the amount of Housing Benefit the claimant receives. The Department explained that it had taken the initial approach of reducing only a claimant’s Housing Benefit because of the

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12 Ibid.
practical difficulties of reducing their total income under legacy benefits. For claimants on UC, reductions are applied to their total UC award. Of the 220,000 households that have been capped at some point between the cap’s introduction and November 2018, the majority (91%) were capped via their Housing Benefit, while just 9% were capped via their UC award. The number of households who are capped via UC will increase as more people move onto the benefit.

Exemptions

11. There are some circumstances in which the cap does not apply. The full list of exemptions is set out in the figure below. In its written evidence, the Department explained that the main reasons for exemptions are:

- To support the work incentive—claimants who work and receive Working Tax Credits (WTC) or earn over £542 a week and are on UC are exempt from the cap; and
- To ensure a safety net for the most vulnerable—households are exempt if someone in the household is in receipt of a disability benefit such as Personal Independence Payment (PIP) or Disability Living Allowance (DLA). Households in receipt of Carer’s Allowance and Guardian’s Allowance have also been exempt from the cap since November 2016.

Figure 3: Exemptions from the benefit cap

<table>
<thead>
<tr>
<th>Exemptions from the Cap</th>
</tr>
</thead>
<tbody>
<tr>
<td>• You’re not affected by the cap if you or your partner:</td>
</tr>
<tr>
<td>• get Working Tax Credit (even if the amount you get is £0)</td>
</tr>
<tr>
<td>• are over State Pension age</td>
</tr>
<tr>
<td>• get Universal Credit because of a disability or health condition that stops you from working (this is called ‘limited capability for work and work-related activity’)</td>
</tr>
<tr>
<td>• get Universal Credit because you care for someone with a disability</td>
</tr>
<tr>
<td>• get Universal Credit and you and your partner earn more than £542 a month combined, after tax and National Insurance contributions</td>
</tr>
<tr>
<td>• You’re also not affected by the cap if you, your partner or any children under 18 living with you get:</td>
</tr>
<tr>
<td>• Armed Forces Compensation Scheme</td>
</tr>
<tr>
<td>• Armed Forces Independence Payment</td>
</tr>
<tr>
<td>• Attendance Allowance</td>
</tr>
<tr>
<td>• Carer’s Allowance</td>
</tr>
<tr>
<td>• Disability Living Allowance (DLA)</td>
</tr>
<tr>
<td>• Employment and Support Allowance (if you get the support component)</td>
</tr>
<tr>
<td>• Guardian’s Allowance</td>
</tr>
<tr>
<td>• Industrial Injuries Benefits (and equivalent payments as part of a War Disablement Pension or the Armed Forces Compensation Scheme)</td>
</tr>
<tr>
<td>• Personal Independence Payment (PIP)</td>
</tr>
<tr>
<td>• War pensions</td>
</tr>
<tr>
<td>• War Widow’s or War Widower’s Pension</td>
</tr>
</tbody>
</table>

Source: GOV.UK

14 Q192
16 Department for Work and Pensions (BEC0023)
**Grace period**

12. If a claimant or their partner was in work consistently for the last 12 months, there is a ‘grace period’ during which the benefit cap is not applied. The grace period lasts for 39 weeks for Housing Benefit claimants and 9 months for UC claimants.

**Our inquiry**

13. We initially began our inquiry into the benefit cap in February 2017, following concerns about how the cap was working in practice and the impact it was having on claimants. Our initial inquiry could not continue because of the 2017 General Election. We re-launched the inquiry in September 2018.

14. We would like to thank everyone who provided both written and oral evidence to the Committee. We are grateful in particular to Sally, Emma, Paula and Jo who shared their personal experiences of the cap so candidly. Their evidence was invaluable to our inquiry.
2 Does the benefit cap incentivise work?

Benefit cap as a work incentive

15. Alongside the benefit cap’s aims to restore fairness to the benefit system and secure financial savings, the DWP says the cap aims to:

*Incentivise work - to reduce poverty and increase economic prosperity.*

The Department explained that exemptions for claimants who receive Working Tax Credits, or whose earnings rise above the UC earnings threshold of £542 a month, exist to provide claimants with a work incentive. Claimants can escape the cap by moving into work or increasing their hours to a minimum of around 16 hours a week.

Disproportionate impact on certain groups

16. Evidence to our inquiry raised concerns that the cap disproportionately impacts households that the Department itself has recognised—through its own assessment—face barriers to moving into employment and are therefore not required to look for work.

DWP’s latest statistics show that in November 2018, just 18% of claimants who had their benefit capped were claiming Job Seeker’s Allowance, the benefit for which claimants are expected to be actively seeking work.

17. The majority of capped households are claiming benefits which do not require them to look for work (known as “job search conditionality”). These are mostly households claiming Income Support (IS) or Employment Support Allowance (ESA). In November 2018, 51% of capped claimants were claiming IS, a benefit mainly for single parents with young children; and 13% were claiming ESA, which means they had been assessed as having limited capability to work due to illness or disability. Figure 4 sets out total benefit take-up for households who have had their Housing Benefit capped.

18. Department for Work and Pensions (BEC0023)
19. Ibid.
20. Child Poverty Action Group (BEC00022), Gingerbread (BEC00012), Zacchaeus 2000 Trust (BEC00027), Brighton and Hove City Council (BEC00021), Newark City Council and Your Homes Newcastle (BEC00020), London Councils (BEC00018), Welfare Rights and Money Advice Service (WRAMAS) - Bristol City Council (BEC00015), Policy in Practice (BEC00029), The Local Government Association (BEC00026), Shelter (BEC00024), Shelter Scotland (BEC00013), Chartered Institute of Housing (BEC00025), Citizens Advice Scotland (BEC0007)
22. Ibid.

Capped households can be in receipt of multiple benefits therefore percentages for households in receipt of each benefit do not sum to 100%.
Conditionality: Benefit system vs benefit cap

18. Conditionality and sanctions can apply to claimants of JSA, IS, ESA and UC. The level and intensity of conditionality depends on a claimant’s circumstances; for example, whether they have a disability or health condition, young children or caring responsibilities. Both ESA and IS are paid on the basis that the claimant is, at that time, not expected to carry out the full range of work-related activity that is expected of a claimant on Jobseeker’s Allowance. Claimants in these groups may be required to take some steps to move closer to work, such as attending work-focused interviews or undertaking ‘work related activities’, but they would not be expected to find a job. But the very same claimants can find themselves subject to the cap, from which the main escape route is moving into work.

19. Child Poverty Action Group said that there were “gaping inconsistencies” between the conditionality applied in the benefit system, and the “blunt” conditionality of the benefit cap, which penalises vulnerable claimants. Sam Lister, Policy and Practice Officer for the Chartered Institute for Housing (CIHI) argued, “What [the cap] is doing, in effect, is sanctioning people who do not have job search conditionality when they would not otherwise be sanctioned”.

Barriers to moving into work

20. Evidence to our inquiry stressed that the main barriers which prevent these groups of people moving into work are childcare and health problems. These issues were also

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23 Child Poverty Action Group (BEC0022)
24 Q7
25 Child Poverty Action Group (BEC0022), Gingerbread (BEC0012), Zacchaeus 2000 Trust (BEC0027), Brighton and Hove City Council (BEC0021), Newcastle City Council and Your Homes Newcastle (BEC0020), Durham City Council (BEC0019), London Councils (BEC0018), Welfare Rights and Money Advice Service (WRAMAS) - Bristol City Council (BEC0015), Policy in Practice (BEC0029), Gwent Welfare Reform Partnership (BEC003)
reflected in the Department’s survey of all claimants affected by the original £26,000 cap. It found that almost two thirds (65%) of claimants reported facing major barriers to work. The main reasons reported by participants were the availability and/or cost of childcare (43%) and poor health (15%).

**Childcare**

21. The Chartered Institute of Housing told us that the majority of capped households claiming Income Support are likely to be single parents with children under the age of five. Several witnesses explained that single parents with young children find it difficult to find jobs which fit in with their childcare or childcare that works with their job, due to a “dire shortage” of part-time jobs and available or affordable childcare. Laura Dewar of Gingerbread cited research which showed that fewer than 10% of jobs across the country on DWP’s own website were advertised as part-time, with many including work at evenings or weekends.

22. The Department argued that it offers help with childcare costs to help parents back to work. In written evidence, it explained:

   *The government currently provides 15 hours of free childcare during term time for all three and four-year olds and for the most disadvantaged two-year olds, which includes most capped lone parent households; a further 15 hours is available when households move into work for children aged 3–4 years old;*

   It added that where claimants face additional costs above this, they can claim back 85% of childcare costs if they are on UC or 70% if they claim Tax Credits.

23. However, we heard from witnesses that the Department’s offer is not sufficient. While single mothers are subject to the benefit cap from the day their children are born, the Government only provides free childcare when a child turns two years old. Furthermore, meeting the remaining costs and making upfront payments can be a challenge for single parents. Sally, a single parent with four children, told us that the upfront costs of childcare were the main barrier to her being able to move into work. She explained:

   *My biggest thing now is childcare, I can’t afford the money upfront to go back to work. Schools are only open 39 weeks of the year and you’re looking at £20-£40 a day for each child to be in a holiday club and you’ve got to pay that in advance. As much as Tax Credits pay it back … I worked it out that I’d have to pay about £800 upfront for them, to go back to work.*

Sally told us that her benefits had been capped for a year now. Had she not been subject to the cap, she would have been able to save the money she now needs to pay the upfront costs to go back to work.

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26 Department for Work and Pensions, “Post implementation effects of the benefit cap (wave 2 survey)”, December 2014
27 Chartered Institute of Housing (BEC0025)
28 Child Poverty Action Group (BEC0022), Gingerbread (BEC0012)
29 Q71
30 Department for Work and Pensions (BEC0023)
31 Child Poverty Action Group (BEC0022)
32 Benefit cap; claimant videos
24. The Minister suggested that households who struggle in these ways can use the Flexible Support Fund (FSF) to “bridge” the gap. However, this Committee’s report, *Universal Credit: Childcare Costs*, found that the Flexible Support Fund—which offers non-repayable, discretionary grants to help claimants overcome barriers to work—has been underspent in every year since 2012–13 (see Table 1, below). While the underspend decreased significantly in 2016–17 (the latest data available), the proportion of the FSF spent on childcare has remained very small—just 2.4% (£1.2 million) of the fund was spent on childcare in 2016–17.

Table 1: Flexible Support Fund spending, millions, 2012–13 to 2016–17

<table>
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<tbody>
<tr>
<td>Total Budget</td>
<td>£99.9m</td>
<td>£127.6m</td>
<td>£178.8m</td>
<td>£76.8m</td>
<td>£51.7m</td>
</tr>
<tr>
<td>- Transport</td>
<td>£13.4m</td>
<td>£19.2m</td>
<td>£20.2m</td>
<td>£15.4m</td>
<td>£13.5m</td>
</tr>
<tr>
<td>- Childcare</td>
<td>£1.6m</td>
<td>£1.8m</td>
<td>£1.5m</td>
<td>£1.6m</td>
<td>£1.2m</td>
</tr>
<tr>
<td>- Training</td>
<td>£15.5m</td>
<td>£18.6m</td>
<td>£10.6m</td>
<td>£15.2m</td>
<td>£8.4m</td>
</tr>
<tr>
<td>- Other</td>
<td>£84.5m</td>
<td>£70.6m</td>
<td>£59.2m</td>
<td>£26.1m</td>
<td>£27.8m</td>
</tr>
<tr>
<td>Total</td>
<td>£115.0m</td>
<td>£110.1m</td>
<td>£91.5m</td>
<td>£58.4m</td>
<td>£51.0m</td>
</tr>
</tbody>
</table>

% spent on childcare:
- 1.4% 1.6% 1.70% 2.70% 2.4%

Underspend:
- £15.2m £17.5m £87.3m £18.4m £0.7m

Underspend (%):
-15.20% 13.70% 48.80% 24.00% 1.40%

Source: Letter to the Chair from Justin Tomlinson MP, Minister for Families, Child Support and Housing, 27 November 2018

**Poor health**

25. Claimants on ESA have been assessed by the Department as having limited capability for work due to injury, sickness or disability. Zacchaeus 2000 Trust (Z2K) told us that, for this reason, many ESA claimants it had helped were “incapable of escaping the cap by immediately moving into work.” Giovanni Tonutti explained that Policy and Practice’s analysis of the employment impact of the cap found that, of the groups that did not move into work, there was a disproportionate representation of single people on ESA. He said this suggests that being on ESA presents an “even greater barrier than childcare” to moving into work. Sam Lister also told us that many people in the ESA group have mental health problems, and that the increased stress of the cap can push them further away from work. Many disabled people also face discrimination when looking for work. In 2017 the Shaw Trust found that over half (56%) of the employers it surveyed said they were reluctant to employ someone with a mental health condition, due to fear of them being stigmatized by their co-workers, and a study by Scope found that nearly half of disabled people (48%) have worried about sharing information about their impairment or condition with an employer.

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33 Q151
35 Zacchaeus 2000 Trust (BEC0027)
36 Q3
37 Q13
38 ShawTrust, *“Mental Health at Work: Still the Last Taboo”*, May 2018, p3
39 Scope, *“Let’s talk; improving conversations about disability at work”*, November 2017, p12
One of the ways households can escape the cap is by making a new claim for an ‘exempting benefit’, which includes disability benefits such as ESA (Support Group), Personal Independence Payment (PIP) or Disability Living Allowance (DLA), Carer’s Allowance and Guardians Allowance. Organisations including Z2K and several local authorities told us they have taken the approach of helping some claimants to apply for disability benefits such as PIP, to which they are entitled, so that they are no longer affected by the cap. DWP’s statistics show that, since the cap was introduced up until November 2018, around 26,500 (13% of households capped via their Housing Benefit) previously capped households were now receiving an exempting benefit.\(^{40}\) It is not clear which benefits these households were claiming, as the Department told us that it does not hold data on the specific benefits that households have claimed to become exempt. However, Z2K suggested that the majority of the exemptions will be for PIP. It stressed that, while these households are no longer affected by the cap, the physical and mental health of families already prone to poor well-being will have been affected by the cap for months or even years and that households “may well have accrued rent arrears and other debts while their benefit was being capped”.\(^{41}\) The Department suggested that claims for exemptions may occur “as a result of a number of factors or changes in circumstances or household composition”.\(^{42}\)

**Department’s rationale for capping households not subject to conditionality**

27. The Department provides exemptions for households on disability-related benefits on the basis that it understands that “disabled claimants may find it harder to move into work and also incur additional living expenses”.\(^{43}\) This suggests that the Department recognises that the cap places those who face barriers to moving into work at a disadvantage. However, its argument for capping households it has assessed as not being required to look for work seems to be that these households “could” move into work. In its written evidence, it said:

> Just because some are not required to work under work conditionality rules does not mean that they are not encouraged to work, which is why the Government has continually provided support to help move people into work.\(^{44}\)

28. On the one hand the Minister reiterated that it was “reasonable” for those not subject to conditionality in the benefit system such as ESA claimants to be subject to the cap because “there is an expectation they could seek a level of work”. However, he conceded that the Department does not expect all claimants affected by the cap to find work.\(^{45}\)

**Other ways to escape the cap**

29. For claimants who cannot escape the cap by moving into work, the Minister suggested that there are “other things which can be changed”, such as housing costs, which he argued


\(^{41}\) Zacchaeus 2000 Trust (BEC0027)

\(^{42}\) Department for Work and Pensions (BEC0023)

\(^{43}\) Ibid.

\(^{44}\) Ibid.

\(^{45}\) Q167
“maintains the principle of fairness within the benefit system”. In response to a question on what had happened to households who were not able to escape the cap by moving into work, he said:

some will have made other changes, including in their housing costs, whether that is either moving or renegotiating what their rental housing costs are, or they could, for example, take in a lodger.

Nevertheless, the majority of evidence to our inquiry was clear that the options available to capped claimants unable to move into employment are extremely limited.

**Moving house**

30. Several social housing providers pointed out that many of their tenants do not have the option of moving to cheaper accommodation, as social housing rent is already generally less expensive than the equivalent in the private rented sector and local authority accommodation is scarce. For example, Plymouth Community Homes told us:

55% of tenants affected by the cap are now in rent arrears. As we have some of the lowest social rents in the country it is not a realistic option for a tenant to move to a cheaper property.

Shelter explained that there are currently 1.15 million households on waiting lists for social housing, but only 290,000 social homes became available last year. Of those people on waiting lists, almost two-thirds (65%) have been waiting for over a year, and 27% for more than five years.

31. In addition, Jenny Pennington, Senior Research Officer for Shelter, explained that Shelter’s analysis of the rental market showed that the lower cap means it is now impossible for lone-parent families with three or more children (60% of those affected by the cap) to avoid the cap by moving to more affordable accommodation in a different area of the country, as shown in the figure below. This is “because the cap is now so low that it is not possible for households to even cover the rent in the cheapest areas of England from the cap amount.”

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46 Q153
47 Q161
48 See for example Shelter (BEC0024), Chartered Institute of Housing (BEC0025), Plymouth Community Homes (BNC0046)
49 Plymouth Community Homes (BNC0046)
50 Shelter (BEC0024)
51 As of November 2018, DWP Stat-Xplore, accessed February 2019
52 Shelter (BEC0024): Shelter considered where in England’s 152 Broad Rental Market Areas (geographical divisions used to determine the amount of Local Housing Allowance a household should receive for housing benefit purposes) rent would be low enough to avoid the cap for families of different sizes. It assumed households would look to rent at a level permitted by the Local Housing Allowance in a home that would have the minimum number of bedrooms needed not to be overcrowded. It assumed that any children are able to share rooms.
32. Even the Department’s own evaluation of the original £26,000 cap “did not find significant evidence that claimants had moved house in response to the cap”. It found that the few claimants that did move had moved locally and there had been no “large scale” movement out of London.53

**Negotiating a cheaper rent**

33. We also heard that negotiating a cheaper rent is not a realistic way for households to escape the cap. The Department’s survey of claimants affected by the original cap showed that just 1% of households who had moved off the cap had been able to negotiate a lower rent with their landlord.54 Several organisations, including the Chartered Institute of Housing, pointed out that, given that the cap is now lower, this is even more unlikely. Sam Lister explained that around 58% of those affected by the cap are already in social housing, which he described as “the cheapest form of housing they could be in”.55 He told us he was not aware of “any social landlord ever having accepted a negotiated down rent at all.”

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53 Department for work and Pensions(BEC0023)
54 Department for Work and Pensions, “Post implementation effects of the benefit cap (wave 2 survey)”, December 2014
55 Q50
Taking in a lodger

34. The Committee was particularly concerned to hear the Minister’s suggestion that claimants could mitigate the impact of the cap by taking in a lodger. In a blog post in response to the Minister’s comments, Shelter noted that as most capped households are single parents with children under 5, it would be extremely rare for them to have room for a lodger as:

- Both local housing allowance claimed by private renters and the Bedroom Tax in social housing don’t allow for spare bedrooms; and
- Tenancy agreements may not allow sub-letting of rooms.

It also pointed out that it is not a “safe and sensible” option for families with young children to rent a room to a stranger.  

35. We can understand the principle of imposing the benefit cap on claimants who are able to work but choosing not to do so. But the vast majority (82%) of households affected by the cap have been assessed, by the Department itself, as not being required to look for work—often because they have an illness or disability or are caring for very young children. Few of these claimants will be comforted by the Minister’s flippant suggestions that they simply move house, renegotiate their rent or even take a lodger. In reality, they are left with no way to escape the cap.

36. The Government made the case for the cap to Parliament on the grounds that it was meant for those who should be able to go to work. But it is now applying the cap to people who have been told by its own Jobcentres that they do not have to look for work, and who face major barriers to doing so. A policy aimed at people who could work but were choosing not to is now being applied to single mothers with newborn babies and people with serious health conditions. This cannot be what was intended and does not reflect the Government’s stated intentions.

37. We recommend that the Department return to the original aims of its policy and apply the cap only to claimants who it expects to be actively looking for work. Specifically, in addition to existing exemptions, the cap should only apply to claimants who are either:

- claiming JSA; or
- claiming UC and in the “All work-related” activity group.

Have capped claimants moved into work?

38. To measure the number of capped claimants who have moved into work, the Department looks at whether previously capped claimants have become exempt by moving into work or increasing their hours. In total, between the cap’s introduction and November 2018, 26% (57,400 out of 220,000) of households affected by the cap were no longer capped because they were working enough hours (around 16 a week) to become exempt. This includes:

- 55,000 households who had their Housing Benefit capped; and

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56 Shelter, “The benefit cap is harming struggling families”, accessed on 6 March 2019
• 2,400 households who had their UC award capped.\(^{57}\)

**Do people move into work because of the cap?**

39. The Department accepts that the 26% of households who have moved into work may not have done so because of the cap. In written evidence it said that “people move into work for a variety of reasons and these official statistics on movement into work do not specifically identify a causal connection”.\(^{58}\)

40. Giovanni Tonutti, Senior Policy and Operations Analyst for Policy in Practice, stressed the importance of isolating the effect of the cap from other factors, stating that some of those who have moved into work “might have moved into work anyway”. He explained:

> the only way you can establish whether the cap has had any effect is to compare the employment outcome of those affected by the cap with very similar households with very similar characteristics that were not affected by the cap and compare the movement in and out of work across the two groups.\(^{59}\)

41. The Department’s 2014 evaluation of the original cap sought to make that comparison. In written evidence, the Department said that it had found that capped households were “4.7 percentage points more likely to flow into employment after a year compared to similar uncapped households”.\(^{60}\) Carl Emmerson, Deputy Director at the Institute for Fiscal Studies, which peer-reviewed the evaluation, confirmed this. He explained:

> Broadly speaking, what we found is that if you put the cap on 100 people after a year you would find about 10 of them would move into work and would have done anyway, even without the cap. Because of the cap that number would go up to about 15; so, you are talking about a 5-percentage point increase in the proportion in work as a direct result of the cap.\(^{61}\)

42. Giovanni Tonutti argued that, while there is evidence the benefit cap has a positive impact on employment outcomes, in the context of the overall numbers affected by the cap this impact is “very small”. He cited Policy in Practice’s own evaluation which showed, similarly to the Department’s own research, that for every 100 households affected by the cap around 4 will have moved into work because of the cap.\(^{62}\)

**The Department’s representation of the cap’s effectiveness**

43. The Department maintains that the cap has been successful as a work incentive. In its written evidence, it stated:
The Government considers that the benefit cap has been successful in helping people into work. Based on an evaluation of the original cap published in December 2014 capped households were 41% more likely to move into employment than similar uncapped households.\(^63\)

However, evidence to our inquiry raised concerns that the Department may be “overclaiming” the work-incentive effect of the cap.\(^64\)

44. The Department itself acknowledges that the total number of capped claimants who move into work do not necessarily do so because of the cap.\(^65\) Nevertheless, it persists in using this number to support its assertion that the cap is effective at moving people into work.\(^66\) The UK Statistics Authority (UKSA) has twice written to the Department about these claims. In May 2013, the then Secretary of State, Rt. Hon Iain Duncan Smith, said, “Already we’ve seen 8,000 people who would have been affected by the cap move into jobs. This clearly demonstrates that the cap is having the desired impact”.\(^67\) The UKSA concluded that this statement was “unsupported by official statistics”.\(^68\) Again in 2014, the UKSA investigated the Department’s claim in a press release that “More than 12,000 households have made the choice to move into work or stop claiming Housing Benefit because of the cap”. It said, “in this case, the available numeric evidence does not demonstrate a particularly strong causal link between the benefit cap and the decisions made by individuals moving into work.”\(^69\)

45. The Department also acknowledges that its own evaluation showed that capped households were only 4.7 percentage points more likely to move into work compared to similar uncapped households. However, the Department has repeatedly said, including in oral evidence to the Committee, that the same evaluation found that capped households are 41% more likely to move into employment than similar uncapped households.\(^70\) Both figures are technically correct: the evaluation found that that 16.2% of households moved into work, of whom 11.5% would have found work anyway. The figure of 41% refers to the relative increase in people moving into employment, while the 4.7% figure refers to the absolute increase. This is illustrated in Table 2, below. But using the relative increase in a situation where the figures are already low risks giving the impression that the increase is much larger than it really is. Carl Emmerson of the IFS suggested that reporting the impact of the cap in this way is “perhaps not the most helpful way to describe it”.\(^71\)

Table 2: Relative and absolute increases

<table>
<thead>
<tr>
<th>% who move into work (total)</th>
<th>% who would have found work without cap</th>
<th>Absolute increase</th>
<th>Relative increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>16.2%</td>
<td>11.5%</td>
<td>4.7% (16.2%-11.5%)</td>
<td>41% (4.7%/11.5%)</td>
</tr>
</tbody>
</table>

\(^63\) Department for Work and Pensions (BEC0023)  
\(^64\) Zacchaeus 2000 Trust (BEC0027), Q2  
\(^65\) Department for Work and Pensions(BEC0023)  
\(^66\) Ibid.  
\(^67\) “1 in 4 facing a cut to their benefits has found work”, Mail Online, 13 April 2013  
\(^68\) Letter from Chair of the UK Statistics Authority to Rt. Hon. Iain Duncan Smith MP, 9 May 2013  
\(^69\) Letter from Chair of the UK Statistics Authority to Jonathan Portes at the National Institute of Economic and Social Research, 17 December 2014  
\(^70\) Department for Work and Pensions (BEC0023), Q142, Q148  
\(^71\) Q2
46. Justin Tomlinson MP, Minister for Family Support, Housing and Child Maintenance (‘the Minister’), used both of the numbers described above when asked by the Committee if the cap had been effective at getting people into work. He said:

Specifically, on the point you raised about incentivising people into work, what we have seen is that those who have started on the cap, 70% have now moved off, of which [39%]\textsuperscript{72} have moved into work. What we are seeing is that of those who are capped compared to those in similar circumstances who are uncapped, there is a 41% increase of those who are able to flow into work.\textsuperscript{73}

47. The Department’s own evaluation clearly shows that just 4.7% of households moved into work because of the original benefit cap (£26,000). Despite this small impact, Ministers have repeatedly sought to over-claim the cap’s effectiveness as a work incentive by quoting the total number of people who have moved off the cap and into work—even in the face of clear warnings from the UK Statistics Authority. The Government should be fully transparent about the impact of the cap on moving claimants into work. It must make it clear that while some capped households move into work because of the cap, the vast majority would have found work anyway.

48. In arguing that the cap is effective in getting people into work, the Department has relied heavily on the relative increase (41%) in capped households moving into work, compared to non-capped households. That is certainly a more impressive figure than the absolute increase of just 4.7%. But for most people, the distinction is difficult to grasp. The Government should take care that its use of statistics does not inadvertently mislead the public into thinking that the cap is doing better at getting people into work than it really is.

49. We recommend that when referring to the cap’s effectiveness as a work incentive, the Department should no longer:

a) cite the total number of people who have moved off the cap and into work as evidence of the cap’s effectiveness, since the majority would have moved into work anyway; or

b) cite the relative increase (41%) in capped households moving into work without also making clear that the absolute increase is just 4.7%.

\textsuperscript{72} Q142: The Minister said 59% in oral evidence. He corrected this to 39% in correspondence following the session.

\textsuperscript{73} Q142
3 Is the benefit cap fair?

The Government said that one of the main aims of introducing the benefit cap was to:

*Introduce greater fairness between those on out-of-work benefits and taxpayers in employment.*

The Minister reiterated this argument in oral evidence:

*We also wanted to put in place a reasonable limit ... We did not think it was right for hardworking families often seeing people able to get more in benefits than they were able to get through full time work themselves.*

Fairness in the existing benefit system

The cap limits a household working less than the required 16 hours per week to £23,000 in London or £20,000 for households in the rest of the UK. The Government has argued that this is “fair” because around 4 in 10 workers earn this amount or less. However, this does not include the additional benefits to which in-work families are entitled, such as Child Benefit, Child Tax credit and Housing Benefit. Organisations such as CIH and Child Poverty Action Group (CPAG) told us that this results in a “false comparison” between some of the income of working households and all of the income of those who aren’t working. CPAG argued that the Government’s claim is therefore misleading as it implies that in-work households are in a similar position to capped households and face similar choices on, for example, where they should live.

Both analysis by the CIH and analysis we commissioned from the House of Commons Library showed that fairness, as defined by the Department, is already built into the system—as households are better off in-work than similar households on benefits even without the cap. For example, the Library’s analysis showed that a single parent with three children earning £20,000 (after tax and National Insurance) is around £8,000 (or £150 per week) better off than they would be on out-of-work benefits.

When the cap is applied, the gap in income between those in work and those considered out of work by the Department can equate to tens of thousands of pounds. The Library’s analysis (see figure 6) showed that the greater the number of children in a family, the larger these gaps become. For example, a working single parent with three children would be around £12,000 better off than their out-of-work counterpart, while a working single parent with five children would be around £22,000 better off.

74 Department for Work and Pensions (BEC0023)
75 Q142
76 Child Poverty Action Group (BEC0022)
77 Child Poverty Action Group (BEC0022), Chartered Institute for Housing (BEC0025)
78 House of Commons Library analysis
54. If a family is subject to the two-child limit these income gaps are reduced. The two-child limit means that a family can only claim child benefits for two children, unless their third or subsequent child was born before 6 April 2017 or special circumstances apply. As shown in the figure below, a family with three children would be around £8,000 better off in work if subject to the two-child limit, as opposed to £12,000 better off if the two-child limit was not in place. Josephine Tucker of CPAG explained “the two policies broadly work in a similar direction for larger families”. She also highlighted that, for some families, the two-child limit could effectively remove the work incentive the benefit cap intends to create, because those families would not see a significant increase in income if they moved into work.79
55. For the moment, it is likely that the majority of capped claimants are not affected by the two-child limit because their children were born before April 2017. However, as time goes on, more and more families will be affected by the two-child limit. As this happens, the work incentive offered by the benefit cap will be further eroded. We have already raised concerns about the impact of the two-child limit, and plan to look at that policy in a wider inquiry. \(^{80}\)

56. CPAG also pointed out that there is no provision in legislation to ensure that the cap rises in line with inflation. \(^{81}\) Its analysis found that a family with three children on benefits were already 40% short of affording what the public deems to be minimum acceptable standard of living—“a well researched process, costing a basic no-frills but acceptable standard of living in the UK”—before the implementation of the lower cap (a £200 a week shortfall). By 2021, due to the rising cost of living and the lower benefit cap, it said that this gap will have doubled and the same family will have barely a third (36%) of what they need. Without the cap they would still face a shortfall of almost half (47%) of what they need. \(^{82}\)

57. We are not convinced by the Government’s argument that the cap restores fairness to the benefit system. Families in work were already better off than similar families who were out of work, even without the cap. Furthermore, the Government sets the cap by referring to earned income, without taking into account the additional benefits that in work families can receive. This means that, when the cap is in place, differences in income between capped claimants and similar families in-work earning the cap limit can amount to tens of thousands of pounds. The greater the number of children in a family, the more pronounced these differences become—from a difference of £12,000

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81 Child Poverty Action Group (BEC0022)
82 Child Poverty Action Group (BEC0039)
for a single parent with 3 children (a third of capped households), rising to £22,000 for a single parent with five children (5% of capped households). Comparing only part of the income of an in-work household with all of the income of a capped household is not fair. The result of this is that the benefit cap is set far too low.

58. **We recommend that the Government increases the current cap limits, by taking account of in-work benefits as well as earnings when calculating the limits. It should also ensure that cap levels are uprated in line with inflation.**

**Impact on claimants unable to escape the cap**

**Financial shortfalls**

59. CPAG stressed that the benefit cap ‘breaks the link between need and entitlement’, which it argued was ‘fundamental to a means tested social security system’. We heard that households unable to escape the cap are left with significantly less money than they need.83 DWP’s most recent statistics show that, as of November 2018, 58% of households had their Housing Benefit capped by £50 or less a week, a further 29% of households were capped by £50–100 per week and 13% (6,390) of capped households had their Housing Benefit capped by more than £100, including 0.3% (180) capped by more than £300 a week.84 Weekly reductions to capped households’ Housing Benefit are shown in the figure 8 below.

**Fig 8: Capped households by weekly amount capped, at November 2018 (Housing Benefit only)**

60. Organisations including Policy in Practice and Shelter told us that these reductions simply do not leave most families with enough money to cover their basic needs.85 Shelter told the Committee that “housing costs are now so high, and the cap is so low, that it

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83 See for example Child Poverty Action Group (BEC0022), Zacchaeus 2000 Trust (BEC0027)
85 See for example Child Poverty Action Group (BEC0022), Shelter (BEC0024), Policy in Practice (BEC0029)
is not possible for thousands of families caught by the cap to both pay rent and avoid destitution. Its analysis to determine whether families affected by the cap would have enough money to pay for “a set of very basic essential family costs” after paying their rent found that a one-parent family with three children would not be able to meet their living costs in a third of the country and a one-parent family with four children would not be able to meet these costs in 43% of the country. Giovanni Tonutti told us that Policy in Practice’s analysis of 11 local authorities had found that around 60% of claimants who are not able to escape the cap faced a shortfall between their monthly income and their estimated costs.

**Impact**

61. The majority of evidence to our inquiry stressed that the “intolerable” financial position the cap places families in is causing poverty and hardship. We heard evidence that many households were falling into rent arrears, and in some cases losing their homes. Witnesses also told us that families who were unable to escape the cap were buying less food, resorting to foodbanks and turning off their heating. Rob Gowans, Policy Officer for Citizen’s Advice Scotland (CAS), told us that CAS had seen cases of people not moving in with their partner to avoid the cap and at least one case where the stress of the cap caused a relationship to break down.

62. We also heard from four people who had been subject to the cap. They told us about the impossible choices they have had to make: between paying rent, heating their homes, providing for their children, and having enough to eat.

**Box 1: Coping with the cap, video testimonies.**

“It was either feed the kids or pay the rent” - Sally, single mother of four children

“You can’t afford to eat, you can’t afford to put your heating on, it’s a case of heating or eating basically …. my eldest lad used to leave food because he knew I ate the leftovers… you don’t want to take food away from the children as you don’t know when you’ll next be able to [buy it], because you’re robbing Peter to pay Paul at this stage … do you pay rent or do you pay your council tax? Do you buy food, or do you pay your electric?” - Paula, single mother of three children

“It was a case of do I feed the kids or pay the bills? I chose to feed my children and just got in more and more debt” - Jo, single mother in temporary accommodation

“When the children went to school, me and my partner used to sit there in the cold with jumpers and coats on, so we could afford to have the heating on when they came home. As soon as they went to bed at night, it went off, we sat in the cold again” - Emma, mother of four children caring for her sick partner

Source: Claimant videos

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86 Shelter (BEC0024)
87 Q14
88 Gingerbread
89 Q14,Q19,Q72,Q73
90 Q72
91 Benefit Cap; claimant videos
63. We heard how these “very desperate” situations can cause “enormous stress” and exacerbate existing mental health conditions. This theme also came through in witness testimonies.

**Box 2: Stress and anxiety, video testimonies.**

“I couldn't cope very well. I didn't cope very well at all, due to debt pushing me over the edge, I got sectioned once because of it, I've been on antidepressants for years because of it, and I was offered no support whatsoever, I didn't know where to turn.” - Jo single parent in temporary accommodation

“Because he can’t work, he thinks that he's failed me and the children so he’s got a lot of anxiety and depression problems and because he’s got the anxiety and depression problems, I’m now on antidepressants, I feel like a bad parent, I feel like I can’t contribute maybe and look after my family” - Emma, mother of four children caring for her partner

Source: Claimant videos

**Impact on children**

64. CPAG stressed that the “main losers” from the benefit cap will be children. It cited research from the Public Policy Institute that showed the benefit cap will lead to 200,000 more children living in severe poverty - below 50% of the median income. We also heard that parents are having to cut back on healthy food and essentials. In addition, witnesses told us that some parents are unable to pay for school trips and activities or are cutting off their internet—affecting children's progress and their ability to do their work. Sally told us her story.

**Box 3: Sally's story**

Sally, a single mother of four children was told she had thirty-nine weeks to find a job or she would have her benefits capped, after her husband left her. Three weeks before her rent was due she received a letter telling her that her Housing Benefit would be reduced to £150. She did not have the money to pay the £750 shortfall in her rent and quickly built up rent arrears. When her ex-husband did not pay her maintenance money she was forced to go to a foodbank and is living on £7 a day to cover the essentials for herself and her four children. She tried to keep the effect of the cap away from her children, but this was impossible: she has had to move house a number of times, which has meant her children have had to move schools several times within a very short time period.

Source: Claimant videos

**Human rights**

65. Organisations including Gingerbread and CPAG drew attention to the Supreme Court's 2015 ruling, which found that the original cap’s application to single parents with

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92 Q105,Q72
93 Benefit cap; claimant videos
94 Child Poverty Action Group (BEC0022)
95 See for example Q73, Benefit cap; claimant videos
children under two breached the UK’s international obligations in relation to children under the UN Convention on the Rights of the Child ([2015] UKSC 16). In her concluding statement Lady Hale, now President of the Supreme Court, said:

_The prejudicial effect of the cap is obvious and stark. It breaks the link between benefit and need. Claimants affected by the cap will, by definition, not receive the sums of money which the State deems necessary for them adequately to house, feed, clothe and warm themselves and their children. It cannot possibly be in the best interests of children affected by the cap to deprive them of the means to provide them with adequate food, clothing, warmth and housing, the basic necessities of life._  

CPAG said it was “alarming” that in the light of this judgement, the decision was made to lower the cap further.

66. The Government successfully appealed this judgement in March 2018. However, the case was considered again by the Supreme Court in July 2018, alongside a further judicial review which challenged the application of the benefit cap to all single parents and in particular to lone parents with children under 5. The ruling is awaited.

### Monitoring the impact of the cap

67. The Department’s evaluation of the original higher-level cap (£26,000) reported that most interviewees said that they were “getting by but struggling”. It found that people were buying less food, not paying other bills, turning down the heating and borrowing money from doorstep lenders. Over a third (35%) of those affected by the original cap reported spending less on “household essentials”. It is particularly concerning that despite evidence—from its own research—that the cap was causing considerable hardship for many claimants, the Government decided to lower the cap limits potentially fuelling more illegal lending and other crime.

68. Witnesses, including CPAG, expressed concerns that the Department has not published any evaluation of the impact of the lower cap. The Department told us that it has commissioned the National Centre for Social Research to carry out an evaluation of the lower cap which includes a survey of capped claimants and case studies of local authority areas with jobcentre staff, local authorities and local support agencies. It plans to publish this evaluation in Spring 2019.

69. This is all the more concerning given that even without the cap, benefit claimants have seen reductions in the value of their income due to various caps and freezes to benefits and tax credits since 2010. This will have reduced the real incomes of out-of-work households by at least 5.7% by 2019–20 compared to a 19.6% increase in average earnings for working

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96 Supreme Court, Judgment, “R vs Secretary of State for Work and Pensions”, March 2015
97 Child Poverty Action Group (BEC0022)
98 “Benefit cap quarterly statistics: GB households capped to November 2018”, February 2019
101 Letter to the Chair from Justin Tomlinson MP, Minister for Family Support, Housing and Child Maintenance, 18 December 2018
The Committee heard that the freeze to working-age benefits has reduced household resilience to income and expenditure shocks, and left households at greater risk of destitution.\(^\text{103}\)

**Reassessing the cap limits**

70. The Minister told us the benefit cap limits must be reviewed by the Secretary of State at least once every Parliament. In correspondence he set out that the Department plans to publish its evaluation of the lower cap in Spring 2019, and said, “the level of the cap will be reviewed in due course following the publication and in the fullness of this Parliament”.\(^\text{104}\)

71. The Department decides whether people are entitled to benefits, and how much it thinks they need to live on. It is therefore inevitable that the benefit cap, which takes some of that money away, leaves many families without enough money to meet even their basic needs. Parents are left making impossible choices: whether to pay their rent, feed their children or heat their homes. Many experience stress and anxiety because of mounting debt and insecurity; we even heard cases of relationships breaking down and in some cases families losing their homes. Bluntly, the Government’s policy is plunging families into hardship—but it is only just beginning to consider the impact. It last looked at this in 2014 when the cap was set at £26,000. Its next evaluation of the impact of the cap will be published in spring 2019—more than two years after the lower cap was introduced. Given the backdrop of various caps and freezes to benefits and tax credits since 2010, which mean that even without the cap, benefit claimants have been significantly left behind—real incomes of out-of-work households will have reduced by at least 5.7% by 2020 compared to a 19.6% increase in average earnings—a competent Department must surely recognise that assessing the impact of the cap every 5 years is unacceptable.

72. *In order to ensure that families do not face hardship because of the cap, the Department should:*
   
   • Establish methods to continuously monitor financial hardship, including whether capped households are accruing rent arrears, getting into debt, or going without essentials such as adequate food or heating;
   
   • Collect regular feedback about how the cap is working in practice from local authorities and from other organisations who work with capped families; and
   
   • Use this information, alongside its review of Discretionary Housing Payments, to ensure that an adequate safety net is in place to address any challenges it identifies.

**Temporary accommodation**

73. Local authorities often use more expensive temporary accommodation to house homeless households. Research by Shelter Scotland showed that temporary accommodation

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\(^\text{102}\) House of Commons Library briefing provided to the Chair

\(^\text{103}\) Oral evidence taken on 16 January 2019, *HC 1539*, Q56

\(^\text{104}\) Letter to the Chair from Justin Tomlinson MP, Minister for Family Support, Housing and Child Maintenance, 18 December 2018
The benefit cap can be 282% higher than the local housing allowance rate. In its 2014 report, Support for Housing Costs in a Reformed Welfare System, our predecessor Committee called on the Government to exempt households in temporary accommodation from the cap on the basis that “these claimants have no choice about where they are housed and few options for reducing their housing costs.” Evidence to our inquiry reiterated this argument. We also heard that households who attempt to move elsewhere to escape the cap risk homelessness as they may be deemed to be intentionally homeless and they would lose priority for housing.

**Box 4: Jo's story**

Jo was in temporary accommodation when she was affected by the benefit cap. The cap meant that Jo needed to find £117 a week to cover the shortfall in her rent, which was £330 a week in total. She went from being in credit with her rent to being in £400 of rent arrears within 3 weeks of the cap setting in. Jo lost her home and was transferred to different temporary accommodation, which she has been in for 8 years, resulting in thousands of pounds of debt. The stress of being in debt led to mental health problems that meant she struggled to leave the house and was sectioned at one point. Jo told us that her decision to return to work, for her own mental health, has actually left her worse off and in even more debt.

Source: Benefit cap; claimant videos

**Department’s rationale for capping households in temporary accommodation**

74. When asked why the Government would not exclude households in temporary accommodation from the cap, the Minister said:

> Because it is only meant to be temporary by nature. It keeps all the organisations, plus that household, focused on looking for the long-term solution.

He argued that households in temporary accommodation should be supported by Discretionary Housing Payments (DHPs)—funding provided to local authorities to help claimants who struggle to adjust to the cap. The Minister confirmed in correspondence that the Department has not conducted any analysis on the impact of temporary accommodation on a claimant’s ability to move into work.

75. We stand by our predecessor Committee’s conclusion in 2014 that capped claimants in temporary accommodation are immediately put at a disadvantage: they are placed in expensive accommodation over which they have no choice. We do not agree with the Government’s argument that the cap should continue to apply to these households.

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105 Shelter Scotland (BEC0013)
107 Zacchaeus 2000 Trust (BEC0027)
108 Q199
109 Ibid.
110 Letter to the Chair from Justin Tomlinson MP, Minister for Family Support, Housing and Child Maintenance, 18 December 2018
simply because it maintains pressure on local authorities to find a long-term solution. It is clearly not the claimant’s fault that their accommodation is significantly more expensive, so it seems ludicrous to apply the cap in these circumstances.

76. **We recommend that the Government immediately exempts all claimants in temporary accommodation from the benefit cap.**

**UC claimants**

77. Organisations including CPAG and London Councils explained that the way the benefit cap is applied in UC—to the overall award, not solely to a household’s housing costs—can leave households in “even more severe hardship” as it can go “deeper into your benefits including benefits that were expected for children”. If the amount a household is to be capped exceeds their housing costs, the cap can then eat into other parts of a claimant’s award such as their standard allowance, as well as child and disability elements. Josephine Tucker of CPAG noted that if claimants had other deductions—such as repayments of Advances—in place, their income could be even further reduced as deductions are applied after the cap has been calculated. The Department explained that the original approach of only capping a household’s Housing Benefit under the legacy system was “a bit of a stopgap”, and that the way the cap is operating under UC is “delivering the policy intent”.

78. Claire Horton, Service Improvement Lead for Newcastle City Council, said that “because [UC] is eating into the personal allowance as well, not just the housing costs it can really go wrong”. She noted that a family in Newcastle on UC was losing £885 per month because of the cap. She explained that the family were in ‘difficult and desperate’ circumstances and that the children were about to be removed because of neglect.

79. The Minister was not able to provide data on how many households had been capped by an amount greater than their housing costs in Universal Credit. However, in correspondence, he explained that in August 2018 around 10% (5,500 of the 58,000 households capped) had the full amount of their Housing Benefit capped. He said that this “may indicate that further reductions should have been applied”.

**Direct rent payments**

80. Several witnesses, including CPAG, also told us that when a household’s rent is paid directly to their landlord (known as a managed payment to landlords), families can be left with zero income to meet their living costs as their rent is paid in full to their landlord and it is the rest of their benefits which are reduced. London Councils noted that some councils had asked for managed payments to landlords to be stopped but stressed that this does not solve the problem as “you are still left with not enough to pay your rent and pay

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111 Child Poverty Action Group (BEC0022), London Councils (BEC0018)
112 Q87
113 Q193
114 Q136
115 Q193
116 Letter to the Chair from Justin Tomlinson MP, Minister for Family Support, Housing and Child Maintenance, 18 December 2018
for basics like food”. They noted that, while the numbers of UC claimants affected by the cap are currently relatively low, this could become a “serious issue” as increasing numbers of capped claimants are migrated to UC.117

81. Where a UC claimant’s rent goes directly to their landlord, they can find that the benefit cap leaves them with nothing. This is because their rent is paid in full to their landlord and the cap deduction is taken from their living costs. Removing the direct payment merely puts claimants in the position of being able to make the difficult choice between paying their rent or buying essentials—like food for themselves and their children. However, it is imperative that claimants are made aware that if their direct payment remains in place they could be left with nothing.

82. Until the introduction of Universal Credit, because of practical limitations, only Housing Benefit could be capped. Under Universal Credit it is not only a household’s housing costs that can be reduced, but its whole UC award. That means that the cap can cut far deeper into the entirety of a household’s income—including even money intended for children. The little money that these households have left can then be further reduced by deductions to their UC awards, which can include the repayment of Advances necessary to tide people over during the five-week wait for their first UC payment. The Government says simply that this is how the cap is supposed to work, but the risk that it leaves even more families facing severe hardship is obvious. Due to the delayed roll out, the number of capped households on Universal Credit so far is small, but it is rising. Already we are hearing the appalling effects of families being left with so little, including—in extreme but real instances—children being taken into care because of neglect. Given the Minister’s indication that the proportion of households on Housing Benefit who should have been capped beyond their housing costs was around 10%, we estimate that any additional savings from applying the policy as intended under Universal Credit would not be substantial.

83. We recommend that the Department ring-fence elements of UC to ensure that claimants are not left without money for food. Specifically, the cap should not be applied to the following elements of a claimant’s UC award:

- **Standard Allowance**
- **Child element**
- **Limited capability for work element.**

In response to this report the Government should also provide an estimate of how many people it expects to be capped via Universal Credit and how many people it expects to be capped via Housing Benefit, once UC is fully rolled out.

**UC assessment periods**

84. Problems arising from how frequently a claimant is paid and when their UC assessment period falls have already been widely reported. In January 2019, the High Court ruled that the way in which the Department has been assessing income from employment through its UC assessment periods is unlawful. The four claimants in the case received their monthly salaries on or around either the last working day of the month. This meant that there were
times when they received two months’ worth of salary within one assessment period. In their judgment, judges in the case said that treating claimants as having earned twice as much as they do if they happen to receive two pay cheques in one monthly assessment period, and as having no earnings in the next assessment period is “odd in the extreme” and “… could be said to lead to nonsensical situations”.

85. CPAG explained that in the context of the benefit cap, people on UC whose paydays do not align with their UC assessment periods can face serious financial losses and that there can be “arbitrary differences in awards between claimants purely because of when their paydays fall”. For example, if a claimant is paid four-weekly rather than monthly they will usually be paid their wages once in eleven of their UC assessment periods and twice in one assessment period, because they are paid thirteen times in one year. This means that if they earn just over the benefit cap threshold on a monthly basis, they will be paid slightly under the cap threshold in eleven months, but well above the threshold in the one month they are paid twice. This can result in them being capped in eleven months out of twelve, while someone with identical earnings would never be capped. An example of this is given below.

Box 5: Example of unfair capping due to UC payment scheduling

A single mother working 17 hours per week is paid £510 every four weeks. The monthly equivalent would be £552.50–enough to mean that she would not be benefit capped if she were paid monthly. However, as she receives less than this in almost all assessment periods, except the one in twelve where she is paid twice (receiving £1,020), she is benefit capped almost every month.

Source: Child Poverty Action Group (BEC0022)

86. Figure 9 shows the different ways that people working 16 hours per week on the National Living Wage—the level at which the benefit cap should not apply—nonetheless face being benefit capped up to 11 months each year, depending on when their pay frequency and assessment period dates.

118 England and Wales High Court Decisions, “Between R and Secretary of State”, 11 January 2019
The benefit cap

Figure 9: Examples of how claimants earning the same wage can be unfairly capped depending on their pay frequency and UC assessment period dates.

Source: Child Poverty Action Group (BEC0022)

87. CPAG told us it had suggested a solution to address this issue to the Department. It recommended using existing arrangements for averaging earnings, which are currently used to determine whether claimants are earning enough to exceed the threshold for in-work conditionality—if they are in work but below the threshold they may be required to look for more work in order to receive UC and face sanctions if they do not continue to seek additional work. The averaging, which is done to make sure the system does not unfairly penalise people, currently has to be done manually. CPAG recommended the system be applied immediately due to the "serious financial losses for affected claimants".\(^{119}\)

88. In oral evidence the Minister told us the Department is aware of the issue and is looking into it.\(^{120}\) In correspondence, he confirmed that the Department does not know how many people have been affected by the issue but estimated this would be around 1% of those capped via UC (around 98 households).\(^{121}\)

89. Courts have already found that the interaction between how frequently people are paid and when they receive their UC award can lead to unfair financial losses for claimants. In the context of the benefit cap, the alignment of a claimant’s payday and UC assessment period can mean that people who are earning enough to escape the cap are capped anyway. It is wholly unacceptable that going to work, as the Department wants and encourages people to do, can leave people suffering significant financial...

\(^{119}\) Child Poverty Action Group (BEC0022)

\(^{120}\) Q195

\(^{121}\) Letter to the Chair from Justin Tomlinson MP, Minister for Family Support, Housing and Child Maintenance, 18 December 2018
losses simply because of a fundamentally flawed administrative process. Worse still, the Department does not even know who has been affected. This is clearly not how the cap was intended to work and requires an urgent solution.

90. **We recommend that the Department urgently finds a solution to ensure claimants are not unfairly capped because of the alignment of their payday and UC assessment period. It should identify all cases where the cap has been applied incorrectly and ensure claimants are fully compensated before September 2019. The Department should write to the Committee with an update of progress each month.**

**Discretionary Housing Payments as a safety net**

91. The Department argues that Discretionary Housing Payments (DHPs)—paid to households by local authorities to households judged to be struggling with their rent—exist as a safety net for capped households. It said:

> DHPs provide a necessary safeguard to help people adjust during the transitional period from when they are first capped or for longer term complex cases.\(^{122}\)

92. Evidence to our inquiry generally agreed that DHPs have helped some families “avoid the worst impact of the cap” and can be “a vital lifeline for mitigating the impact of the cap.”\(^{123}\) However, organisations including Gingerbread and CPAG questioned whether DHPs were really an adequate means of preventing hardship for vulnerable claimants, given their uncertain and temporary nature.\(^{124}\) Organisations including the Residential Landlord’s Association also raised concerns that the discretion available to local authorities in how they use DHPs can result in a ‘postcode lottery’ depending on the funding local authorities have available and how they choose to exercise their discretion.\(^{125}\) Our predecessor Committee raised similar concerns in our 2014 report, *Support for housing costs in the reformed welfare system.*\(^{126}\)

93. Claimants must apply to their local authority to receive a DHP. However, we heard that many claimants aren’t aware that they can access the support, or struggle with the application process.\(^{127}\) Furthermore, many local authorities—who face significant funding pressures—place time limits on the awards. Analysis by Shelter found that local authorities often limit awards to 12 weeks or less for capped claimants.\(^{128}\) Some local authorities apply conditions such as requiring claimants to seek work, and some do not provide claimants with the full amount to cover their rent.\(^{129}\) Paula, a single parent affected by the cap, told

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\(^{122}\) Department for Work and Pensions (BEC0023)
\(^{123}\) Child Poverty Action Group (BEC0022), Gingerbread (BEC0012)
\(^{124}\) Child Poverty Action Group (BEC0022), Gingerbread (BEC0012)
\(^{125}\) Residential Landlords Association (BEC0028)
\(^{127}\) Zacchaeus 2000 Trust (BEC0027), Carmarthenshire County Council (BEC0041), Kingston upon Thames (BEC0043), Women’s Aid Federation of England (BEC0017)
\(^{128}\) Shelter (BEC0024)
\(^{129}\) Liverpool City Council (BEC0044), Kingston upon Thames (BEC0043), Oxford City Council (BEC0040), Spelthorne Borough Council (BEC0045), Brighton and Hove City Council (BEC0021), Newcastle City Council and Your Homes Newcastle (BEC0020)
us that her local authority said she could only receive a DHP if she stopped paying for
activities for her children, cut off her internet and gave up the car she needed to get her
three children to school.\textsuperscript{130}

94. In addition, we heard about cases where capped households’ initial applications for
DHPs were turned down or where a household’s request for an extension of a previous
award was refused. CPAG told us it was aware of cases which suggested some local
authorities were rejecting applications because of funding constraints; it described this
development as “very alarming”.\textsuperscript{131}

95. The Department was not able to identify any analysis it had done of the different
policies local authorities have on DHPs or whether DHPs are working as an effective safety
net for claimants affected by the cap.\textsuperscript{132} However, a letter from the Minister explained that
the Department is currently conducting new research to better understand uses of DHPs
by local authorities and future demand through the Local Authority Insight Survey “to
investigate local authorities’ DHP policies including questions on demand, effectiveness
and conditionality”. The findings will be published this year.\textsuperscript{133}

96. The Department has relied on Discretionary Housing Payments (DHPs) as the
panacea for claimants who struggle to adapt to the cap. But the fact that this support
is discretionary means that households can be subject to a ‘postcode lottery’, finding
themselves at the mercy of their local council’s policies and decisions which in turn
depend on the size of their budgets and competing pressures for funding. Since the
Department has little understanding of how different local authorities use DHPs, it
cannot know whether its key safeguard is working effectively for capped claimants
and their families. The reality is that while DHPs work as a necessary sticking plaster
for some families, many families are not getting the consistent support they need. This
can be a particular problem in areas with high housing costs, where DHP allocations
are more likely to be rationed.

97. We recommend that the Department complete a full review of Discretionary
Housing Payments to understand how different local authorities approach the provision
of DHPs for capped claimants. It should also evaluate how effective DHPs have been
as a support for claimants who struggle to adjust to the cap, by looking at individual
claimants’ experiences. The Department should use the information from this review to
produce clearer and more directive guidance to local authorities about the provision of
DHPs so that they act more effectively as a safeguard. If the Department refuses to carry
out this review, we will invite the National Audit Office to carry out a value for money
study of DHPs and their use by different local authorities in mitigating the impact of
welfare reforms.

\textsuperscript{130} Benefit Cap; claimant videos
\textsuperscript{131} Child Poverty Action Group (BEC0022)
\textsuperscript{132} Q202–203
\textsuperscript{133} Letter to the Chair from Justin Tomlinson MP, Minister for Family Support, Housing and Child Maintenance, 18
December 2018
4 Financial savings

98. The Department says that one of the benefit cap’s aims is to:

Secure the economic well-being of the country by reducing spending on benefits and encouraging positive behavioural changes.\textsuperscript{134}

**Expected savings**

99. The Treasury originally forecast that the cap would save £270 million a year (from 2014–15 onwards) once fully implemented. This estimate was revised down in the 2013 Budget to £185 million a year.\textsuperscript{135} In addition to these savings, it forecast that the lower benefit cap would save a further £155 million a year in 2017–18, falling to £110 million by 2020–21. Projected savings up until 2018–19 are shown in figure 10 below.\textsuperscript{136}

**Figure 10: Projected savings from the Benefit cap**

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure10.png}
\caption{Projected savings from the Benefit cap}
\end{figure}


**How much has it saved?**

100. The Department claims the cap has met its aim of securing financial savings. In oral evidence, the Minister argued, “we have clearly secured that objective because last year [2017/18], without taking into account any form of behavioural changes, we saved £190 million.”\textsuperscript{137} However, these savings equate to just under two thirds (64%) of the

\begin{itemize}
\item \textsuperscript{134} Department for Work and Pensions (BEC0023)
\item \textsuperscript{135} HM Treasury, \textit{Budget 2013}, HC 1033, March 2013
\item \textsuperscript{136} Department for Work and Pensions, \textit{“Welfare Reform and Work Act: impact assessment for the benefit cap”}, August 2016
\item \textsuperscript{137} Q142
\end{itemize}
£295 million of savings forecast for 2017–18. It is likely that this is because the number of households affected by the cap is now around 63,000 instead of the 88,000 the Department originally projected in its August 2016 impact assessment.\(^{138}\)

**Full picture of savings**

101. Witnesses drew attention to the fact that these savings are “minuscule” in the context of overall cuts to welfare.\(^{139}\) Carl Emmerson, of the IFS, explained that by 2020 welfare reforms implemented since 2010—which includes the four-year benefit freeze, cuts to Housing Benefit, the introduction of Universal Credit and the introduction of the two child limit—will reduce benefit spending by around £40 billion a year.\(^{140}\) Savings of around £200 million a year from the benefit cap therefore represent less than 1% of these savings; or barely a rounding error (0.1%) of the overall welfare bill of £177 billion.\(^{141}\)

102. In written evidence, the Department explained that the savings it reports include neither any savings to the taxpayer as a result of behaviour changes (for example, people moving into work) nor the costs of Discretionary Housing Payments and administrative funding that it provides to local authorities to “support the delivery of the cap”.\(^{142}\)

103. In 2018–19, the Department allocated £60 million of DHP funding for Local Authorities in Great Britain to support capped households, and £8 million to fund benefit cap administration costs and other ‘new burdens’ incurred by local authorities in operating the cap. Assuming the savings in 2018–19 are of a similar level to 2017–18 (£190 million), this would mean that including these additional costs would bring savings down by over a third, to around £130 million. The IFS has previously commented that the provision of DHPs as a mitigating feature for vulnerable households renders the “net fiscal savings from the cap all the more trivial”.\(^{143}\)

104. Organisations such as Policy in Practice argued that, if the costs that local authorities and the welfare system incur as a result of the cap are taken into account, the annual savings of around £200 million a year could probably be offset.\(^{144}\) CPAG told us that, together with the costs of the funding that the Department provides to local authorities, the cap’s impact on child poverty could render the long-term financial savings “negligible”.\(^{145}\)

105. The Department confirmed that it has not carried out a full cost benefit analysis of the cap.\(^{146}\) Despite this, it told us that the costs of DHPs and administrative funding provided to local authorities are “far outweighed by the total fiscal savings from the benefit cap”, and that it was “not aware of any knock-on effects on other public spending as a result of the benefit cap being introduced”.\(^{147}\) Given the concerns raised by stakeholders in the advice and welfare sector—including local authorities and organisations supporting claimants—

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\(^{139}\) Q22

\(^{140}\) Q21

\(^{141}\) [National Audit Office, Departmental Overview -Department for Work and Pensions](#); The NAO describes the total welfare bill of £177.2 billion as £177 billion in its Departmental overview

\(^{142}\) [Department for Work and Pensions (BEC0023)](#)

\(^{143}\) [Institute for Fiscal Studies, A tighter benefit cap](#), accessed 6 March 2019

\(^{144}\) Q22

\(^{145}\) [Child Poverty Action Group (BEC0022)](#)

\(^{146}\) [Letter to the Chair from Justin Tomlinson MP, Minister for Family Support, Housing and Child Maintenance, 18 December 2018](#)

\(^{147}\) [Department for Work and Pensions (BEC0023)](#)
about the additional pressures the cap is placing on the wider welfare system, it is clear that the Department has not sought to identify these costs or engaged stakeholders in making this statement.

**Additional costs to local authorities**

**Additional Resource**

106. Policy in Practice described the vital role that local authorities play in supporting vulnerable claimants. It said:

> Local authorities are often left “plugging the gap” created by benefit rules and necessarily provide a safety net for their most vulnerable and disadvantaged residents, albeit with ever shrinking and limited resources.\(^{148}\)

107. Local authorities told us that, while the cap was introduced to secure financial savings for central government, they have had to dedicate significant resources to “mitigate the negative impact of the policy”.\(^{149}\) We heard from local authorities who were putting a tremendous amount of effort into targeting and supporting residents affected by the cap. All of the local authorities who spoke to us had put in place specially designated teams to proactively reach out to households affected by the cap (as well as by other welfare reforms).\(^{150}\)

108. Newcastle City Council explained that it took the initial “proactive” approach of helping families to reduce their financial expenditure. This included helping claimants to reduce debt repayments, working with water providers to reduce a household’s bills and negotiating with high cost credit agencies on behalf of claimants to return household goods and replace them with goods from its “supporting independence scheme”.\(^{151}\) Several local authorities stressed the importance of providing households with “stability”, before they could even begin to talk to claimants about seeking employment.\(^{152}\)

109. Witnesses from local authorities raised concerns about the sustainability of the support they are providing in the long-term and highlighted that it is not a ‘statutory’ service.\(^{153}\) Several authorities said that they were using their own funds or seeking additional funding from other schemes to help households affected by the cap. Mark Fowler, Director of Community Solutions at the London Borough of Barking and Dagenham, explained that, while the council plans to continue using its own funds, “there are additional pressures coming into local authorities”.\(^{154}\) Likewise, Claire Horton of Newcastle City Council said:

> If the money did run out for a particular approach, we would have to think about how we would do that with existing resources. That would mean we might not be able to help competing groups of residents who have other needs.\(^{155}\)

\(^{148}\) Policy in Practice (BEC006)

\(^{149}\) Newcastle City Council and Your Homes Newcastle (BEC0020)

\(^{150}\) Q96, Q100, Q105

\(^{151}\) Newcastle City Council and Your Homes Newcastle (BEC0020)

\(^{152}\) See for example Newcastle City Council and Your Homes Newcastle (BEC0020), Brighton and Hove City Council (BEC0021)

\(^{153}\) Q107

\(^{154}\) Ibid.

\(^{155}\) Ibid.
Despite the work they are doing, we heard that local authorities are still seeing some “absolutely desperate circumstances”. Mark Fowler highlighted that the losses some families face are “quite dramatic” and said, “no matter what you put in place to try to work with people with their finances, there is only a certain level of impact you are going to have”. It is important to note that, while we heard from a handful of local authorities which are doing great work, there are over 400 local authorities in the UK and not all local authorities will be taking such a proactive approach.

**Data sharing**

Local authorities explained that it is the data on capped households—available to them through the Housing Benefit system—which allows them proactively to target capped households who may need support. We heard that they are not able to access this data for households on Universal Credit, because the Department will not share it with them. Witnesses said this leaves authorities “blind” to who is capped under UC. Graham Bourne, Head of Revenue and Benefits for Brighton Council, said that this forces local authorities to be “reactive rather than proactive, which is no way to deal with hardship”. Mark Fowler told us that 22% of the people who are being capped across London are now UC claimants and stressed that “regardless of how good the support is in the services, those people are more exposed than they would have been”.

In oral evidence, the Minister said he felt the point of data sharing with consent is an “absolute no-brainer” and referred to an example where this was working for ex-offenders. He told us he planned to raise the issue with the Secretary of State as a priority. However, in correspondence following the session the Minister said:

> The Department is committed to explore options with the SSAC in response to the SSAC’s report on the draft of the UC (Managed Migration) Regulations 2018 and will publish a report on its joint conclusions.

He did not say when this report would be published.

The work that many local authorities are doing—often at the expense of their own resources—to identify and support capped households is a vital tool in mitigating some of the hardship the cap creates. To date, local authorities have been able to target capped households and offer support using Housing Benefit data which indicates which households are subject to the cap. Local authorities told us that they cannot do this for Universal Credit because the Department does not provide them with the equivalent UC data. It is unacceptable that the Department is effectively hindering local authorities’ efforts to provide the support that capped households on UC so desperately need. This places households on UC at a significant disadvantage compared to those on legacy benefits.

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156 Q100  
157 See for example London Councils (BEC0018)  
158 Q139  
159 Q140  
160 Q138  
161 Q217  
162 Letter to the Chair from Justin Tomlinson MP, Minister for Family Support, Housing and Child Maintenance, 18 December 2018
114. **We recommend that the Department makes it an urgent priority to ensure that local authorities have the UC data they need to continue to support capped households. It should publish its report on data sharing by July 2019 and ensure that improved data sharing processes are in place by September 2019.**

**Temporary Accommodation**

115. We heard that including households in temporary accommodation in the cap has a “huge” impact on local authority budgets.\(^{163}\) Some evidence to our inquiry described how families unable to cover their rental shortfalls were losing their homes and being moved into temporary accommodation as a result.\(^{164}\) Shelter Scotland explained that local authorities are often “forced to pick up the tab” if claimants cannot afford their rent, either through arrears or by providing DHPs.\(^{165}\) London Councils explained that councils in London were having difficulties finding affordable housing for capped claimants, increasing the pressure on their emergency accommodation budgets.\(^{166}\)

**Wider costs**

116. Several organisations highlighted that the stress of the cap has led to an increased demand and pressure on mental health services.\(^{167}\) Brighton and Hove City Council pointed out that families failing to eat or heat their homes sufficiently will also lead to a knock-on cost for public health services.\(^{168}\)

117. **The Department has repeatedly claimed that the benefit cap is saving money. Its claimed savings of £190 million a year are just 1% of the savings expected from the welfare reforms implemented since 2010, and a mere 0.1% of the total welfare bill. But even these relatively small savings are likely to be an overestimate. Recognising that the cap creates hardship, the Department gives back a significant portion of the money it takes from claimants by providing funding for Discretionary Housing Payments to local councils, to help them support capped claimants. This circular process of transferring public money from one budget to another—while a straightforward administrative issue for the Department—fails to consider the huge impact on families, who are left relying on less stable support; the Department does not even include these costs in its figures. Nor does it consider the increased costs to local authorities through temporary accommodation, or the wider costs that hardship created by the cap may have on other public services. The Government cannot have it both ways: if this support for claimants is a key safeguard, it ought to be reflected in calculations of any savings.**

118. **In the interest of transparency, we recommend that the Department conducts a full cost benefit analysis of its benefit cap policy to determine how much it really saves. This analysis should include the cost of Discretionary Housing Payments and administrative funding it provides to local authorities. It should seek to identify any additional costs to local authorities—for example, as a result of rent arrears—and to identify the costs to the wider welfare system which are the result of hardship caused by the cap.**

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\(^{163}\) Shelter Scotland (BEC0013)
\(^{164}\) See for example London Councils (BEC0018)
\(^{165}\) Shelter Scotland (BEC0013)
\(^{166}\) London Councils (BEC0018)
\(^{167}\) See for example London Councils (BEC0018), Stonewater (BEC0014)
\(^{168}\) Brighton and Hove City Council (BEC0021)
Discretionary Housing Payments: funding for local authorities

119. The DWP allocates DHP funding to local authorities across England and Wales. DHPs for Scotland were devolved from 1 April 2017, under the Scotland Act 2016. In addition to small amounts of “core funding”, local authorities receive specific allocations intended to address the effects of Housing Benefit reforms. This includes funding to help families who struggle to adjust to the benefit cap, as well as funding for specific allocations to address the effects of Local Housing Allowance reforms and the removal of the spare room subsidy.\(^\text{169}\) A breakdown of the Government’s total DHP funding for 2017–18 is set out in the table below:

<table>
<thead>
<tr>
<th>Element</th>
<th>£millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>18</td>
</tr>
<tr>
<td>Local Housing Allowance</td>
<td>27</td>
</tr>
<tr>
<td>Removal of spare room subsidy</td>
<td>54</td>
</tr>
<tr>
<td>Benefit Cap</td>
<td>67.5</td>
</tr>
<tr>
<td>Total</td>
<td>166</td>
</tr>
</tbody>
</table>

Source: DWP 2017–18 Discretionary Housing Payment Statistics, July 2018

120. The Department argued that statistics on the use of DHPs suggest that “local authorities are adequately resourced for the purposes of implementing the DHP scheme and mitigating hardship.” It stated that, in 2017–18, local authorities spent £163.7 million of the £166 million allocated to them (99% of the total allocation). It also noted that the majority (66%) of local authorities spent less than their full-year allocation. Local authorities reported that 28% of their spending on DHPs related to support for capped households. However, the Department told us that this is likely to be an underestimate, as a further 32% of spending (just under £44m) was recorded by local authorities as being for a ‘combination of welfare reforms’ or ‘not for welfare reforms’.\(^\text{170}\)

121. While it is true that 99% of the amount allocated to local authorities was spent on providing DHPs to households in need, not all of the money spent came from the funding provided. Reporting the proportion spent in this way masks the significant variation in DHP expenditure across local authorities as well as the fact that many local authorities used money from their own budgets to top up their DHP funds (DWP guidance states that each local authority’s total DHP budget can be up to two and a half times the contribution from central Government). The map below shows the variation in local authority DHP expenditure across England and Wales.

\(^{169}\) Department for Work and Pensions, “Use of Discretionary Housing Payments—Analysis of end of year returns from Local Authorities”, 12 July 2018

\(^{170}\) Department for Work and Pensions (BEC0023)
122. Furthermore, while 66% (229) of local authorities underspent their DHP allocation, 29% (101) of local authorities spent more than their allocation. The average overspend for each local authority (£63,000) was much larger than the average underspend (£38,000), as shown in the table below.\textsuperscript{171}

**Table 4: DHP amount over/under-spent 2017–18**

<table>
<thead>
<tr>
<th></th>
<th>No. of local authorities</th>
<th>Total amount (£)</th>
<th>Average amount (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DHP overspend (England &amp; Wales)</td>
<td>101</td>
<td>£6,317,758</td>
<td>£62,552</td>
</tr>
<tr>
<td>DHP underspend (England &amp; Wales)</td>
<td>229</td>
<td>£8,583,766</td>
<td>£37,484</td>
</tr>
<tr>
<td>Exact spend count</td>
<td>17</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: DWP Discretionary Housing Payment Statistics

\textsuperscript{171} Department for Work and Pensions, “Use of Discretionary Housing Payments—Analysis of end of year returns from Local Authorities”, 12 July 2018
123. We heard from several local authorities that the DHP funding the Department provides is not sufficient. Mark Fowler said that in the past three financial years London boroughs spent £7 million on DHPs out of their own general funds in addition to their central government allocation. He noted that if this money had not been used to support capped claimants, it could have been spent on other local government services.\textsuperscript{172} Cambridge Council, which overspent on both its total DHP allocation and its benefit cap allocation, told us that providing support was vital in order to prevent households from moving “endlessly between homelessness, rehousing and eviction and homelessness again”.\textsuperscript{173} London Councils said that DHP funding is “in dire need of review”.\textsuperscript{174}

124. The Local Government Association said there are some concerns that certain councils are underspending their allocations and work needs to be done to understand the various reasons for this. However, it also argued that the variation in expenditure means that “the allocation formula needs to be reviewed to ensure that it more accurately reflects the local need”.\textsuperscript{175}

125. The Government expects local authorities to support capped households who struggle financially with the funding it provides through Discretionary Housing Payments. However, it is clear that a significant proportion of local authorities are having to top-up this funding, putting pressure on their budgets and diverting funds from services that would be used elsewhere. At the same time, there are other local authorities that seem to have funding going spare.

126. We recommend that the Department works with local government to review its methodology for individual local authority DHP allocations so that local authorities have the funding they need to prevent hardship. Where there is surplus DHP funding that has not been spent towards the end of the year, local authorities who have spent up to or over their allocations should be able to apply for additional funds from this surplus.

\textsuperscript{172} Q110
\textsuperscript{173} Cambridge Council (BEC0034)
\textsuperscript{174} London Councils (BEC0018)
\textsuperscript{175} The Local Government Association (BEC0026)
5 Conclusion

The Department for Work and Pensions decides whether people are entitled to benefits and how much they need to live on. The benefit cap overrides this system and takes some of this necessary support away. The Government justifies this financial shock to families by saying that it achieves three aims: encouraging more people to work; restoring “fairness” to the benefit system, and making financial savings. Nearly six years after it was introduced, the cap’s performance against all three aims is disappointing at best.

The Government claims that the cap restores fairness between people who are out of work and people who are working. But this claim does not stand up to scrutiny: the cap fails to account for the benefits that in-work families can receive—leaving them substantially better off. In any case, families in work were already better off than similar families who were out of work, even without the cap. Nor is it clear that the cap is saving money, as even the small amount the Department claims to have saved—just 0.1% of the total welfare bill—includes only the money it takes from households’ benefit income. It hands back a significant proportion of these savings to local authorities to support capped claimants, mainly through Discretionary Housing Payments. In part, it is simply transferring costs from one budget to another. Finally, while a small percentage of claimants—just 4.7%—move into work because of the cap, the reality is that the vast majority do not. This comes as little surprise: most people who are capped have already been assessed by the Department itself as not being required to seek work, because they face major barriers to doing so.

Meanwhile, we are hearing harrowing stories from all over the country of people going hungry, parents struggling to feed their children, families shivering in their homes because they can’t afford heating, and tenants building up crippling rent arrears. The Government must now look at the impact of the benefit cap in the round and consider whether, in its current form, it is achieving what it set out to do. If the cap is really intended to encourage people into work and restore fairness to the system, it should only be applied to people who are expected to find work.

We recognise that, taken together, our recommendations would reduce the savings made by the benefit cap. In the absence of a full cost-benefit analysis of the kind we have recommended, it is difficult to assess precisely what the costs of our proposals might be. Applying the cap only to those who are expected to find work would remove about 80% of currently capped households from the cap. That would of course reduce the direct savings to central government—but it would also reduce the costs of this policy, by reducing the need for Discretionary Housing Payments and other support provided by local authorities and the wider welfare system as a result of the hardship the cap creates. Overall, the evidence suggests that the cost to the public purse might well be negligible—but the positive impact for people escaping the cap would be immense.

It is now time for a full audit of this policy. The Government must look carefully at both the financial and the human costs of the cap in its current form, and weigh these in the balance. If it is found wanting, the Government must commit to radical change—and quickly.
Conclusions and recommendations

**Does the benefit cap incentivise work?**

1. We can understand the principle of imposing the benefit cap on claimants who are able to work but choosing not to do so. But the vast majority (82%) of households affected by the cap have been assessed, by the Department itself, as not being required to look for work—often because they have an illness or disability or are caring for very young children. Few of these claimants will be comforted by the Minister’s flippant suggestions that they simply move house, renegotiate their rent or even take a lodger. In reality, they are left with no way to escape the cap. (Paragraph 35)

2. The Government made the case for the cap to Parliament on the grounds that it was meant for those who should be able to go to work. But it is now applying the cap to people who have been told by its own Jobcentres that they do not have to look for work, and who face major barriers to doing so. A policy aimed at people who could work but were choosing not to is now being applied to single mothers with newborn babies and people with serious health conditions. This cannot be what was intended and does not reflect the Government’s stated intentions. (Paragraph 36)

3. **We recommend that the Department return to the original aims of its policy and apply the cap only to claimants who it expects to be actively looking for work. Specifically, in addition to existing exemptions, the cap should only apply to claimants who are either:**
   - claiming JSA; or
   - claiming UC and in the “All work-related” activity group. (Paragraph 37)

4. The Department’s own evaluation clearly shows that just 4.7% of households moved into work because of the original benefit cap (£26,000). Despite this small impact, Ministers have repeatedly sought to over-claim the cap’s effectiveness as a work incentive by quoting the total number of people who have moved off the cap and into work—even in the face of clear warnings from the UK Statistics Authority. The Government should be fully transparent about the impact of the cap on moving claimants into work. It must make it clear that while some capped households move into work because of the cap, the vast majority would have found work anyway. (Paragraph 47)

5. In arguing that the cap is effective in getting people into work, the Department has relied heavily on the relative increase (41%) in capped households moving into work, compared to non-capped households. That is certainly a more impressive figure than the absolute increase of just 4.7%. But for most people, the distinction is difficult to grasp. The Government should take care that its use of statistics does not inadvertently mislead the public into thinking that the cap is doing better at getting people into work than it really is. (Paragraph 48)

6. **We recommend that when referring to the cap’s effectiveness as a work incentive, the Department should no longer:**
a) cite the total number of people who have moved off the cap and into work as evidence of the cap’s effectiveness, since the majority would have moved into work anyway; or

b) cite the relative increase (41%) in capped households moving into work without also making clear that the absolute increase is just 4.7%. (Paragraph 49)

Is the benefit cap fair?

7. We are not convinced by the Government’s argument that the cap restores fairness to the benefit system. Families in work were already better off than similar families who were out of work, even without the cap. Furthermore, the Government sets the cap by referring to earned income, without taking into account the additional benefits that in-work families can receive. This means that, when the cap is in place, differences in income between capped claimants and similar families in-work earning the cap limit can amount to tens of thousands of pounds. The greater the number of children in a family, the more pronounced these differences become—from a difference of £12,000 for a single parent with 3 children (a third of capped households), rising to £22,000 for a single parent with five children (5% of capped households). Comparing only part of the income of an in-work household with all of the income of a capped household is not fair. The result of this is that the benefit cap is set far too low. (Paragraph 57)

8. We recommend that the Government increases the current cap limits, by taking account of in-work benefits as well as earnings when calculating the limits. It should also ensure that cap levels are uprated in line with inflation. (Paragraph 58)

9. The Department decides whether people are entitled to benefits, and how much it thinks they need to live on. It is therefore inevitable that the benefit cap, which takes some of that money away, leaves many families without enough money to meet even their basic needs. Parents are left making impossible choices: whether to pay their rent, feed their children or heat their homes. Many experience stress and anxiety because of mounting debt and insecurity; we even heard cases of relationships breaking down and in some cases families losing their homes. Bluntly, the Government’s policy is plunging families into hardship—but it is only just beginning to consider the impact. It last looked at this in 2014 when the cap was set at £26,000. Its next evaluation of the impact of the cap will be published in spring 2019—more than two years after the lower cap was introduced. Given the backdrop of various caps and freezes to benefits and tax credits since 2010, which mean that even without the cap, benefit claimants have been significantly left behind—real incomes of out-of-work households will have reduced by at least 5.7% by 2020 compared to a 19.6% increase in average earnings—a competent Department must surely recognise that assessing the impact of the cap every 5 years is unacceptable. (Paragraph 71)

10. In order to ensure that families do not face hardship because of the cap, the Department should:

   • Establish methods to continuously monitor financial hardship, including whether capped households are accruing rent arrears, getting into debt, or going without essentials such as adequate food or heating; )
• Collect regular feedback about how the cap is working in practice from local authorities and from other organisations who work with capped families; and

• Use this information, alongside its review of Discretionary Housing Payments, to ensure that an adequate safety net is in place to address any challenges it identifies. (Paragraph 72)

11. We stand by our predecessor Committee’s conclusion in 2014 that capped claimants in temporary accommodation are immediately put at a disadvantage: they are placed in expensive accommodation over which they have no choice. We do not agree with the Government’s argument that the cap should continue to apply to these households simply because it maintains pressure on local authorities to find a long-term solution. It is clearly not the claimant’s fault that their accommodation is significantly more expensive, so it seems ludicrous to apply the cap in these circumstances. (Paragraph 75)

12. We recommend that the Government immediately exempts all claimants in temporary accommodation from the benefit cap. (Paragraph 76)

13. Where a UC claimant’s rent goes directly to their landlord, they can find that the benefit cap leaves them with nothing. This is because their rent is paid in full to their landlord and the cap deduction is taken from their living costs. Removing the direct payment merely puts claimants in the position of being able to make the difficult choice between paying their rent or buying essentials—like food for themselves and their children. However, it is imperative that claimants are made aware that if their direct payment remains in place they could be left with nothing. (Paragraph 81)

14. Until the introduction of Universal Credit, because of practical limitations, only Housing Benefit could be capped. Under Universal Credit it is not only a household’s housing costs that can be reduced, but its whole UC award. That means that the cap can cut far deeper into the entirety of a household’s income—including even money intended for children. The little money that these households have left can then be further reduced by deductions to their UC awards, which can include the repayment of Advances necessary to tide people over during the five-week wait for their first UC payment. The Government says simply that this is how the cap is supposed to work, but the risk that it leaves even more families facing severe hardship is obvious. Due to the delayed roll out, the number of capped households on Universal Credit so far is small, but it is rising. Already we are hearing the appalling effects of families being left with so little, including—in extreme but real instances—children being taken into care because of neglect. Given the Minister’s indication that the proportion of households on Housing Benefit who should have been capped beyond their housing costs was around 10%, we estimate that any additional savings from applying the policy as intended under Universal Credit would not be substantial. (Paragraph 82)

15. We recommend that the Department ring-fence elements of UC to ensure that claimants are not left without money for food. Specifically, the cap should not be applied to the following elements of a claimant’s UC award:

• Standard Allowance
• Child element
• Limited capability for work element.

In response to this report the Government should also provide an estimate of how many people it expects to be capped via Universal Credit and how many people it expects to be capped via Housing Benefit, once UC is fully rolled out. (Paragraph 83)

16. Courts have already found that the interaction between how frequently people are paid and when they receive their UC award can lead to unfair financial losses for claimants. In the context of the benefit cap, the alignment of a claimant’s payday and UC assessment period can mean that people who are earning enough to escape the cap are capped anyway. It is wholly unacceptable that going to work, as the Department wants and encourages people to do, can leave people suffering significant financial losses simply because of a fundamentally flawed administrative process. Worse still, the Department does not even know who has been affected. This is clearly not how the cap was intended to work and requires an urgent solution. (Paragraph 89)

17. We recommend that the Department urgently finds a solution to ensure claimants are not unfairly capped because of the alignment of their payday and UC assessment period. It should identify all cases where the cap has been applied incorrectly and ensure claimants are fully compensated before September 2019. The Department should write to the Committee with an update of progress each month. (Paragraph 90)

18. The Department has relied on Discretionary Housing Payments (DHPs) as the panacea for claimants who struggle to adapt to the cap. But the fact that this support is discretionary means that households can be subject to a ‘postcode lottery’, finding themselves at the mercy of their local council’s policies and decisions which in turn depend on the size of their budgets and competing pressures for funding. Since the Department has little understanding of how different local authorities use DHPs, it cannot know whether its key safeguard is working effectively for capped claimants and their families. The reality is that while DHPs work as a necessary sticking plaster for some families, many families are not getting the consistent support they need. This can be a particular problem in areas with high housing costs, where DHP allocations are more likely to be rationed. (Paragraph 96)

19. We recommend that the Department complete a full review of Discretionary Housing Payments to understand how different local authorities approach the provision of DHPs for capped claimants. It should also evaluate how effective DHPs have been as a support for claimants who struggle to adjust to the cap, by looking at individual claimants’ experiences. The Department should use the information from this review to produce clearer and more directive guidance to local authorities about the provision of DHPs so that they act more effectively as a safeguard. If the Department refuses to carry out this review, we will invite the National Audit Office to carry out a value for money study of DHPs and their use by different local authorities in mitigating the impact of welfare reforms. (Paragraph 97)
Financial savings

20. The work that many local authorities are doing—often at the expense of their own resources—to identify and support capped households is a vital tool in mitigating some of the hardship the cap creates. To date, local authorities have been able to target capped households and offer support using Housing Benefit data which indicates which households are subject to the cap. Local authorities told us that they cannot do this for Universal Credit because the Department does not provide them with the equivalent UC data. It is unacceptable that the Department is effectively hindering local authorities’ efforts to provide the support that capped households on UC so desperately need. This places households on UC at a significant disadvantage compared to those on legacy benefits. (Paragraph 113)

21. We recommend that the Department makes it an urgent priority to ensure that local authorities have the UC data they need to continue to support capped households. It should publish its report on data sharing by July 2019 and ensure that improved data sharing processes are in place by September 2019. (Paragraph 114)

22. The Department has repeatedly claimed that the benefit cap is saving money. Its claimed savings of £190 million a year are just 1% of the savings expected from the welfare reforms implemented since 2010, and a mere 0.1% of the total welfare bill. But even these relatively small savings are likely to be an overestimate. Recognising that the cap creates hardship, the Department gives back a significant portion of the money it takes from claimants by providing funding for Discretionary Housing Payments to local councils, to help them support capped claimants. This circular process of transferring public money from one budget to another—while a straightforward administrative issue for the Department—fails to consider the huge impact on families, who are left relying on less stable support; the Department does not even include these costs in its figures. Nor does it consider the increased costs to local authorities through temporary accommodation, or the wider costs that hardship created by the cap may have on other public services. The Government cannot have it both ways: if this support for claimants is a key safeguard, it ought to be reflected in calculations of any savings. (Paragraph 117)

23. In the interest of transparency, we recommend that the Department conducts a full cost benefit analysis of its benefit cap policy to determine how much it really saves. This analysis should include the cost of Discretionary Housing Payments and administrative funding it provides to local authorities. It should seek to identify any additional costs to local authorities—for example, as a result of rent arrears—and to identify the costs to the wider welfare system which are the result of hardship caused by the cap. (Paragraph 118)

24. The Government expects local authorities to support capped households who struggle financially with the funding it provides through Discretionary Housing Payments. However, it is clear that a significant proportion of local authorities are having to top-up this funding, putting pressure on their budgets and diverting funds from services that would be used elsewhere. At the same time, there are other local authorities that seem to have funding going spare. (Paragraph 125)
25. We recommend that the Department works with local government to review its methodology for individual local authority DHP allocations so that local authorities have the funding they need to prevent hardship. Where there is surplus DHP funding that has not been spent towards the end of the year, local authorities who have spent up to or over their allocations should be able to apply for additional funds for this surplus. (Paragraph 126)

Conclusion

26. The Department for Work and Pensions decides whether people are entitled to benefits and how much they need to live on. The benefit cap overrides this system and takes some of this necessary support away. The Government justifies this financial shock to families by saying that it achieves three aims: encouraging more people to work; restoring “fairness” to the benefit system, and making financial savings. Nearly six years after it was introduced, the cap’s performance against all three aims is disappointing at best. (Paragraph 127)

27. The Government claims that the cap restores fairness between people who are out of work and people who are working. But this claim does not stand up to scrutiny: the cap fails to account for the benefits that in-work families can receive—leaving them substantially better off. In any case, families in work were already better off than similar families who were out of work, even without the cap. Nor is it clear that the cap is saving money, as even the small amount the Department claims to have saved—just 0.1% of the total welfare bill—includes only the money it takes from households’ benefit income. It hands back a significant proportion of these savings to local authorities to support capped claimants, mainly through Discretionary Housing Payments. In part, it is simply transferring costs from one budget to another. Finally, while a small percentage of claimants—just 4.7%—move into work because of the cap, the reality is that the vast majority do not. This comes as little surprise: most people who are capped have already been assessed by the Department itself as not being required to seek work, because they face major barriers to doing so. (Paragraph 128)

28. Meanwhile, we are hearing harrowing stories from all over the country of people going hungry, parents struggling to feed their children, families shivering in their homes because they can’t afford heating, and tenants building up crippling rent arrears. The Government must now look at the impact of the benefit cap in the round and consider whether, in its current form, it is achieving what it set out to do. If the cap is really intended to encourage people into work and restore fairness to the system, it should only be applied to people who are expected to be looking for work. (Paragraph 129)

29. We recognise that, taken together, our recommendations would reduce the savings made by the benefit cap. In the absence of a full cost-benefit analysis of the kind we have recommended, it is difficult to assess precisely what the costs of our proposals might be. Applying the cap only to those who are expected to find work would remove about 80% of currently capped households from the cap. That would of course reduce the direct savings to central government—but it would also reduce the costs of this policy, by reducing the need for Discretionary Housing Payments
and other support provided by local authorities and the wider welfare system as a result of the hardship the cap creates. Overall, the evidence suggests that the cost to the public purse might well be negligible—but the positive impact for people escaping the cap would be immense. (Paragraph 130)

30. It is now time for a full audit of this policy. The Government must look carefully at both the financial and the human costs of the cap in its current form, and weigh these in the balance. If it is found wanting, the Government must commit to radical change—and quickly. (Paragraph 131)
Formal minutes

Wednesday 6 March 2019

Members present:

Rt Hon Frank Field, in the Chair
Heidi Allen       Nigel Mills
Rosie Duffield   Chris Stephens
Steve McCabe      Derek Thomas

Draft report (*The benefit cap*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 131 read and agreed to.

Report overview agreed to.

Resolved, That the Report be the Twenty-fourth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjourned till Monday 11 March at 4pm
Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee’s website.

Wednesday 10 October 2018

Giovanni Tonutti, Senior Policy and Operations Analyst, Policy in Practice, Carl Emmerson, Deputy Director, Institute for Fiscal Studies, Sam Lister, Policy and Practice Officer, Chartered Institute of Housing, Jenny Pennington, Senior Research Officer, Shelter

Wednesday 31 October 2018

Rob Gowans, Policy Officer, Citizens Advice Scotland, Marc Francis, Policy and Campaigns Director, Zacchaeus 2000 Trust, Josephine Tucker, Head of Policy and Research, Child Poverty Action Group, Laura Dewar, Policy Officer, Gingerbread

Claire Horton, Service and Improvement Lead, Active Inclusion, Newcastle City Council, Mark Fowler, Director of Community Solutions, London Borough of Barking and Dagenham, representing London Councils, Graham Bourne, Head of Revenues and Benefits, Brighton and Hove City Council

Wednesday 21 November 2018

Justin Tomlinson, Parliamentary Under Secretary of State for Family Support, Housing and Child Maintenance, Pete Searle, DWP Policy Director, Working Age Benefits
Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee’s website.

BEC numbers are generated by the evidence processing system and so may not be complete.

1. Chartered Institute of Housing (BNC0044)
2. Child Poverty Action Group (BNC0073)
3. Children in Scotland (BNC0035)
4. Citizens Advice Derbyshire Districts (BNC0011)
5. Citizens Advice Scotland (BNC0036)
6. Crawley Borough Council (BNC0023)
7. Crisis (BNC0027)
8. DWP (BNC0009)
9. Gentoo Group Ltd (BNC0012)
10. Gingerbread (BNC0047)
11. Gwent Welfare Reform Partnership (BNC0026)
12. Halton Housing Trust (BNC0042)
13. Homeless Link (BNC0031)
14. Josie Dzerins (BNC0010)
15. Knowsley Council (BNC0040)
16. Local Government Association (BNC0014)
17. London Borough of Tower Hamlets (BNC0025)
18. London Councils (BNC0033)
19. Mrs Amanda Finn (BNC0037)
20. Ms Sue Balcomb (BNC0017)
21. Name withheld (BNC0005)
22. Newcastle City Council (BNC0034)
23. Northern Housing Consortium (BNC0028)
24. Peabody (BNC0038)
25. Plymouth Community Homes (BNC0046)
26. Policy in Practice (BNC0041)
27. Residential Landlords Association (BNC0032)
28. Salford City Council (BNC0072)
29. Scottish Federation of Housing Associations (BNC0043)
30. Shelter (BNC0039)
31. Stonewater (BNC0019)
32. Symphony Housing Group (BNC0022)
33. The Children’s Society (BNC0020)
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All publications from the Committee are available on the [publications page](#) of the Committee’s website.

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