House of Commons

Work and Pensions Committee

The benefit cap: Government Response to the Committee's Twenty-Fourth Report

Twenty-Second Special Report of Session 2017–19

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Work and Pensions Committee

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

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Contacts

All correspondence should be addressed to the Clerk of the Work and Pensions Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 8976; the Committee's email address is workpencom@parliament.uk

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Special Report

The Work and Pensions Committee published its Twenty-Fourth Report of Session 2017–19, *The benefit cap*, on 12 March 2019. The Government response was received on 10 May 2019 and is appended below.

Appendix: Government Response

The Government has carefully read the Committee's report and noted the observations and recommendations made. The Government is grateful to all the claimants who provided personal testimony and to the organisations and councils that provided evidence.

The Government maintains that the benefit cap restores fairness between those receiving out-of-work benefits and taxpayers in employment and provides an incentive to move into work. In addition, work, particularly full-time work, substantially reduces the chances of poverty. Children in workless households are around three times more likely to be in poverty when compared to households where one adult works.

The cap imposes a reasonable limit on the total amount which a household can receive in welfare benefits to promote a fair and healthy society and maintain public confidence in the welfare system.

Capped households may see an improvement in their finances as a result of working any number of hours, even if their earnings are below the threshold to exempt the household from the cap. Other exemptions ensure that there is a safety net for those who find themselves in the most vulnerable position and those who cannot work, such as the most severely disabled and those with caring responsibilities. Additional support continues to be available from the Discretionary Housing Payment scheme.

The Government acknowledges the concerns about the financial difficulty caused for some claimants in meeting upfront childcare costs highlighted in the Committee's report and can confirm that the Department for Work and Pensions has already taken action to help remove this barrier.

In particular, Jobcentres have been reminded that the Flexible Support Fund should be used to assist eligible claimants with the transition into work by providing grants to cover up-front childcare costs. In addition, changes have been made to the Flexible Support Fund guidance to align it more closely with Universal Credit.

Significant work is being undertaken within the Department for Work and Pensions to increase work coaches' understanding and promotion of both the Universal Credit childcare offer and the wider Government childcare offer.

These changes illustrate the progress the Government is making to make childcare less of a burden for working families and to smooth the transition into work. More needs to be done and the Department for Work and Pensions continues to work closely with other government departments to ensure childcare schemes complement each other to deliver effective support for working families.

The Department for Work and Pensions is also grateful for clarifications provided by the House of Commons Library on our queries on the statistical analysis presented in the report, particularly around the analysis under-pinning Figure Six.

The Government has responded to the Committee's recommendations in the following section.

Recommendation One

***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)

The Government is grateful to the Committee for recognising the principle of applying the benefit cap to claimants who are choosing not to work but are able to do so. The Government does not, however, accept the recommendation to apply the cap only to claimants who are required to actively look for work in order to receive their benefits.

The original aims of the benefit cap policy which go beyond work incentives, and were supported across the political spectrum, still apply and were scrutinised during numerous consultations and debated at length before being approved by Parliament, namely to:

(1) introduce greater fairness in the welfare system between those receiving out-of-work benefits and tax payers in employment;

(2) make financial savings where the benefit cap applies and, more broadly, help make the system more affordable by incentivising behaviours that reduce long-term dependency on benefits; and

(3) increase incentives to work.

The Department for Work and Pensions remains committed to supporting claimants, who can work, to prepare for and move into work and therefore has conditionality requirements that support that aim. These have evolved over time, building on findings and evidence that worklessness is detrimental to the life chances of children and has a negative impact on the health, wellbeing and self-esteem of both children and adults.[1]

The Department firmly believes, as stated in the written evidence that the Committee have reproduced at paragraph 27 in the report, that just because claimants may not be required to look for work under work conditionality rules does not mean that they should not be encouraged to work or to prepare for work. Many people choose to work who would qualify for Employment and Support Allowance or have parental or caring responsibilities. This is why the Department has continually provided support to help move people into work. For instance, support from work coaches in Jobcentres is available to claimants affected by the benefit cap regardless of whether work conditionality applies.

1 https://www.gov.uk/government/collections/improving-lives-helping-workless-families-indicators-and-evidence-base

Work Coaches can, for example, signpost to services and websites that provide advice on the availability and range of formal childcare services in the local area, provide support to identify suitable training opportunities, and arrange help with expenses.

This latest release of official statistics, published on 2nd May 2019,[2] continues to show that lone parent households with young children are moving into work after being capped, demonstrating that it is possible for lone parent households to move off the cap and enter employment. For single parent households with a youngest child aged under two years,[3] 67 per cent (21,300) who have (previously) been capped are no longer capped at February 2019. Of these, 41 per cent (8,800) are exempt with an open Working Tax Credit claim.

The Department always recognised that exemptions would be needed from the benefit cap to protect some claimants for whom work is not a viable option for example carers and the most severely disabled. The exemptions are not intended to mirror cases where a claimant is not required to seek work. Many families in work have made the choice to work in circumstances where they would not be required to do so under the benefit rules.

Recommendation Two

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)

The Government has considered the Committee's recommendation on the use of the data described in part (a) and (b), and will ensure that context is always provided when using statistical evidence to support the cap's effectiveness. The Government agrees with the Committee on part (a) that the statistics relating to the number of households who are no longer capped because they have claimed Working Tax Credits or are earning above the Universal Credit earnings threshold cannot, in isolation, be used to imply the causal impact of the benefit cap on employment outcomes.

The Department for Work and Pensions has acted on previous advice from the United Kingdom Statistics Authority in 2013 and 2014, (as cited in footnotes 68 and 69 of the Committee's report) in relation to the manner in which the off-flows into work statistics are communicated, as part of the Benefit Cap Quarterly Official Statistics publications.[4]

In addition, the Government also accepts the comments made with reference to b) above. The Department for Work and Pensions will ensure that the 41 percent figure and the 4.7 percentage points figure are quoted alongside each other to put into context when communicated. The evaluation of the previous cap found that households in scope for

2 https://www.gov.uk/government/statistics/benefit-cap-number-of-households-capped-to-february-2019

3 Figures are based on cumulative caseload; the age of the youngest dependant in a household is calculated at the last month they were capped (not at time of initial cap), which can be any month between April 2013 and November 2018. Household type is reported at the time of initial cap - the household structure may have subsequently changed.

4 https://www.gov.uk/government/statistics/benefit-cap-number-of-households-capped-to-february-2019

the cap were 4.7 percentage points more likely to go into work than similar uncapped households. This was equivalent to a 41 percent increase in their employment rate compared to similar uncapped households. In particular, the 41 percent statistic is important as it highlights that the employment rate for households in-scope for the previous cap was very low before the cap was introduced in April 2013 and it significantly increased following implementation of the cap, on top of that observed for the counterfactual, comparison group. The Department thanks the Committee for their advice in this section and in Table Two of their Report regarding how best to present relative and absolute employment changes.

The Committee rightly recognises that both the statistics on the relative and absolute increase in claimants moving into work quoted from the 2014 evaluation of the cap,[5] and cited by the Department in its written evidence are accurate. The 2014 evaluation was peer reviewed by the Institute for Fiscal Studies (IFS) who stated that the analysis did "provide a reasonable sense of the likely effect of the cap on movements onto Working Tax Credits".[6]

The Department is currently working with the Institute for Fiscal Studies, who are independently peer reviewing the lower benefit cap impact assessment, and will take their advice into consideration regarding the presentation of the employment findings in the evaluation report. The full evaluation will be published when the peer review of the impact evaluation is completed; we now anticipate this to be in Autumn of 2019.

Recommendation Three

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)

The Government welcomes the Committee clearly setting out its concerns, and those of interested parties, around the fairness of the benefit cap and the associated cap levels, touching on the interaction with other policies.

The Committee may already be aware that the Secretary of State for Work and Pensions is obliged to review the level of the benefit cap once in each Parliament taking into account the national economic situation and any other matters that she considers relevant. The Government cannot currently accept this recommendation because to do so would pre-empt the outcome of such a review.

During debates on the Welfare Reform and Work Bill in 2015-16, Ministers told Parliament that the review would be sensitive to the key objectives of the cap, and could take into account factors such as:

- The wider impacts of the cap on families, children, disabled people and carers;
- Earnings;
- Housing costs;
- Inflation;

5 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/385970/benefit-cap-analysis-of-_outcomes-of-capped-claimants.pdf
6 https://www.ifs.org.uk/publications/7482

- Benefit rates;
- The strength of the labour market.

The Department for Work and Pensions is currently undertaking a comprehensive evaluation of the lower, tiered benefit cap. As part of this, the National Centre for Social Research (NatCen) has been commissioned to undertake research through a quantitative longitudinal survey of capped households under both Housing Benefit and Universal Credit together with qualitative case studies of local authorities. Alongside this detailed research, the Department is also undertaking analysis of capped households, which will be peer reviewed by the Institute for Fiscal Studies (IFS). Work is progressing well, but in order to ensure that the evaluation design is as rigorous as possible we have decided to extend the timeframe over which we conduct the analysis. The results of these two strands of evaluation are intended to be published together in when the peer review of the impact evaluation is completed; we now anticipate this to be in Autumn 2019. The level of the cap will be reviewed in due course following publication of this evaluation and in the fullness of this Parliament.

Recommendation Four

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)

The Government does not accept this recommendation because the research described in the paragraphs below together with other responses in this Memorandum, aim to address many of the concerns that the Committee highlights in this recommendation in terms of supporting families that may risk hardship. The Department for Work and Pensions takes seriously the need to support claimants in vulnerable situations.

The evaluation of the lower benefit cap, expected for publication in the Autumn, will provide qualitative and quantitative evidence of the impact of the cap. In addition, the findings of the next wave of the Local Authority Insight Survey (wave 36) on the use of Discretionary Housing Payments (DHPs) by local authorities, as explained in the response to recommendation eight, will also provide evidence that the Department for Work and Pensions can take into account when looking to improve its service to claimants in vulnerable situations.

In addition, the Committee may wish to note that the Department is currently carrying out analysis with a number of housing providers, to investigate and understand the true level of rent arrears for their tenants, what is causing them and any impacts Universal Credit may be having. This analysis is not exclusive to households affected by the benefit cap and, once complete, will be published in due course.

The Department has been working with the Office for National Statistics and the Scottish Government to introduce a new set of food security questions in the annual Family Resources Survey (FRS) survey starting from April 2019. Food insecurity measures the percentage of households experiencing insecure and insufficient access to food because of lack of money or other resources. Collecting this data in the FRS survey alongside other FRS data on household income and living circumstances will allow the Department to better understand the drivers of food insecurity and will ensure support can be targeted to those who need it most.

As previously mentioned, the Department for Work and Pensions takes seriously the need to support claimants in vulnerable situations. All claimants receive continuous tailored support through their personal work coaches. All Departmental staff working with claimants complete extensive training that prepares them for their role, including identifying claimants with complex needs. Specific training is provided for supporting a wide range of needs, with guidance to signpost claimants to relevant support, and these circumstances will be recorded on a claimant's online account so that Departmental staff are aware and can be mindful of issues.

Recommendation Five

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

Whilst the Government does not accept this recommendation it does agree that it may be appropriate to look further into this complex area because, as the Committee cites, claimants can be placed in expensive accommodation over which they have no choice. The Department for Work and Pensions will consider the findings from the evaluation of the lower cap levels following the completion of this research and as part of a review of the cap levels when this is undertaken.

The Committee may wish to note, however, that since April 2018, people living in temporary accommodation and claiming Universal Credit have had their housing costs paid by Housing Benefit. Discretionary Housing Payments can also be used to meet any shortfall.

Recommendation Six

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)

The Government is unable to accept this recommendation, which would cut across a fundamental aspect of the design of Universal Credit. As described in the letter sent to the Committee on 15 May 2018, Universal Credit is a unitary concept. Whilst there are different elements in the determination of the gross entitlement, Universal Credit is paid as one single payment, a single monthly award payable to households who meet the entitlement criteria. These awards are calculated at the end of each assessment period using the maximum total entitlement less appropriate deductions. The consequence of this is that certain elements cannot be ring-fenced. The Department and Ministers have been consistent in emphasising this to commentators and lobby groups.

With regard to the benefit cap specifically, attempting to extract or ring-fence individual components from the calculation would ignore the interaction between the different stages of the calculation and would not correctly reflect how Universal Credit is designed in the legislation and how it operates in practice. The Committee should note that the level of the cap is set out in Primary Legislation, which the Secretary of State has a duty to review in each Parliament.

65,900 households had their total benefits capped under Housing Benefit and Universal Credit in February 2019; 52,300 and 13,600 respectively. The Department's estimate of how many households will be capped under Universal Credit, after the existing claims from the six benefits that Universal Credit is replacing have been moved across to Universal Credit, will depend on a number of factors including the outcome of the review of the benefit cap levels, the Universal Credit rollout schedule, and decisions relating to the uprating of working-age benefits from 2020/21.

Recommendation Seven

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)

Whilst the Government does not accept this recommendation it notes the point that the Committee makes. The Department for Work and Pensions has been applying the legislation correctly and does not accept that there is any error or a need to compensate claimants who have had the cap applied.

The Department is, however, mindful of the potential impact of the current benefit cap earnings threshold for claimants who are not paid monthly, identified by the Child Poverty Action Group (CPAG) and set out by the Committee in the report. As explained in the oral evidence to the Committee, the Department is looking into this and will consider whether any changes to the policy, and the law, should be brought forward as a result. The Committee will understand that this will need to take account of all relevant factors and the wider implications of any changes proposed.

Recommendation Eight

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)

The Department for Work and Pensions is undertaking a programme of research on Discretionary Housing Payments (DHPs) which covers similar areas to those in the recommendation by the Committee. The Department is also aware that a number of external stakeholders are currently undertaking research on DHPs.

The Department recognises the importance of understanding how local authorities are using the DHP scheme to support claimants.

The Department acknowledges that DHPs are an important measure for local authorities in mitigating impacts of welfare reforms for claimants in vulnerable situations, or for supporting claimants in adjusting to those reforms, and as such collects data on local authorities' use of the funds twice a year. This data helps inform the annual allocation process, and the Department's understanding of the level by which the welfare reforms are being supported by the DHP fund. This data is published as Official Statistics biannually.[7]

The Department has published its allocations to local authorities for 2019/20, including the allocation methodology used for the benefit cap, in the Housing Benefit Subsidy Circular S1/2019.[8]

The Department has also commissioned and published independent research on the way DHP funding is used by local authorities, via the Local Authority Insight Survey (LAIS) in 2016[9] and again in 2017.[10]

In addition, capped claimants' awareness, use and experience of DHPs is being explored within the Department's evaluation of the lower tiered benefit cap through a longitudinal claimant survey and supported with further context from Local Authority case studies. It is intended to publish these findings in Autumn 2019.

The Department has also commissioned the National Centre for Social Research (NatCen) to undertake new research on DHPs via wave 36 of the Local Authority Insight Survey. This research includes both a quantitative survey of local authorities, as well as in-depth

7 https://www.gov.uk/government/collections/discretionary-housing-payments-statistics
8 https://www.gov.uk/government/publications/housing-benefit-subsidy-circulars-2019/s12019-2019-20-discretionary-housing-payments-government-contribution-for-english-and-welsh-local-authorities
9 https://www.gov.uk/government/publications/discretionary-housing-payments-temporary-accommodation-and-universal-support-delivered-locally-local-authority-insight-survey-wave-31
10 https://www.gov.uk/government/publications/local-authority-insight-research-wave-32

interviews with a sample of staff. The research, which has developed with input from practitioners and external stakeholders in the wider welfare research community, will investigate:

- Variation in local authorities' DHP policies, priorities and approaches to awarding DHPs;
- Trends in demand, and projected demand for DHPs;
- Award lengths and amounts, and repeat applications;
- Use of DHPs for both Universal Credit and Housing Benefit Claimants; and
- Local authorities' views on the effectiveness of DHPs.

The full evaluation will be published when the peer review of the impact evaluation is completed; we now anticipate this to be in Autumn 2019.

Recommendation Nine

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)

The Government accepts the recommendation in part, because it acknowledges the importance of ensuring data is shared in an appropriate and timely manner to ensure that claimants, in particular those who are in very vulnerable situations, can be supported by local authorities and other claimant representatives.

The Department for Work and Pensions already shares data, which identifies capped claimants, with local authorities in order to support claimants that may be eligible for the Council Tax Reduction scheme. As this would appear to contradict the evidence given to the Committee by local authorities, the Department will ensure that the associated guidance is strengthened. The Department will continue to work with local authorities and their representatives on the Local Authority Welfare Steering Group to support claimants.

As advised previously, the Department is working with stakeholders to explore how data can be shared appropriately, to ensure the right support for those in a vulnerable situation. The Department has held multiple stakeholder workshops in recent months and plans to hold more discussions with the Social Security Advisory Committee and others. This activity will include working with claimants and their representatives to ensure the process works effectively for claimants in a vulnerable situation to access the service. When this comprehensive feedback has been gathered the Department will look at how to address the issues raised. The Department expects to engage further with stakeholders in the Autumn to explore and agree a way forward. These timescales aim to explain why the Government is not in a position to accept the element of the recommendation calling for specific deadlines to be met.

Recommendation Ten

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)

Whilst the Government does not accept this recommendation at this time the Department for Work and Pensions will explore whether a wider Cost Benefit Analysis is necessary and feasible following the completion of the evaluation of the lower benefit cap and the outcome of wave 36 of the Local Authority Insight Survey into Discretionary Housing Payments (DHPs), as referenced at recommendation 8.

The Committee should also be aware that the Department has allocated £7.3 million to local authorities across Great Britain in new burdens funding.[11] This new burdens funding relates to the extra costs of implementing the benefit cap regulations, including applying the benefit cap to Housing Benefit awards, administering DHPs related to the cap, and providing related support services to capped households. The funding has been allocated to local authorities based on the expected benefit cap caseload under Housing Benefit and Universal Credit, taking into account the forecast rollout of Universal Credit to local authorities in 2019 to 2020.

Recommendation Eleven

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. (Paragraph 126)

This recommendation is accepted in part.

The Government recognises how important it is that money allocated to Discretionary Housing Payments (DHPs) is spent as intended to help people who face a shortfall in their housing costs, and need additional support. As such the Department for Work and Pensions has developed a fair and transparent methodology to allocate DHP funding to individual local authorities using the latest available data on numbers affected by welfare reforms, and the amount of those impacts, as the best indicator of relative demand for DHPs. Each year local authorities are consulted on the methodology before the allocations are finalised. Once funding has been allocated to a Local Authority, the distribution of that funding to individuals is entirely at the Local Authority's discretion. Figures published in 'Use of Discretionary Housing Payments: financial year 2017 to 2018' show that 95 per cent of DHP funding allocated by central government in 2017-18 was spent by local authorities.

11 https://www.gov.uk/government/publications/housing-benefit-subsidy-circulars-2019/hb-s92019-additional-new-burdens-funding-to-meet-the-costs-of-implementing-welfare-reform-changes-in-2019-to-2020

The Department continues to use monitoring data, collected from local authorities twice each year, to gain a greater understanding of how DHP funds are being used to support claimants in a vulnerable situation and this data also helps inform the annual allocation process. The Department has also commissioned the National Centre for Social Research (NatCen) to undertake new research on DHPs via wave 36 of the Local Authority Insight Survey (as detailed above in our response to recommendation Eight)

Although the Department would like to see all of its contribution to DHP funding reach the intended recipients, any alternative approach to the current system has to be proportionate and not risk a greater underspend. The Department is also constrained by financial accounting restrictions which prevent funding being carried forward to future years. For these reasons the Department does not consider a system which allows local authorities to bid for un-spent funding would be a viable approach and is unable to accept the part of the recommendation which seeks to introduce a scheme to allow local authorities to apply for surplus DHP funds

The Department will, however, continue to review the current methodology for the allocation of DHP funding to understand whether any refinements might be possible to reduce any underspend further. This will include a review of DHP guidance for local authorities to help understand why some local authorities do not spend their full allocation.