



December 2009

# Supporting people into work: the next stage of Housing Benefit reform

Public Consultation

**DWP**

Department for  
Work and Pensions





# Supporting people into work: the next stage of Housing Benefit reform

## Public Consultation

Presented to Parliament by  
the Secretary of State for Work and Pensions  
by Command of Her Majesty  
December 2009

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# Contents

Summary.....	7
Supporting people into work: the next stage of Housing Benefit reform .....	9
Our reforms so far .....	13
The case for Housing Benefit reform.....	17
Supporting people into work .....	21
A fair and affordable system.....	25
Decent housing, mixed communities .....	31
Towards tomorrow’s housing support.....	35
Our commitment to listen.....	37
Consultation questions.....	40



# Summary

1. Housing Benefit helps 4.5 million households across Great Britain afford a decent home.
2. It is not only a crucial part of the support we provide to low income households, whether they are in or out of work, it also guards against homelessness, supports mixed communities, and helps the building of affordable homes for the future by ensuring a steady stream of income for social sector landlords.
3. We have already helped local authorities reform the administration of Housing Benefit and to cut both fraud and error. Our challenge now is to reform Housing Benefit further so that it can help people into work. We want Housing Benefit to support independence and aspiration; we need it to be fair, affordable and sustainable.
4. The Local Housing Allowance introduced last year has already brought in a fairer way of calculating Housing Benefit for tenants who live in private rented accommodation. Our objective was to reduce barriers to work by giving people more responsibility for their Housing Benefit payments and to provide a better service based on simpler rules.
5. The Local Housing Allowance has delivered a modern, streamlined system which ensures that rates of benefit are made clearly available. This enables customers to make informed choices about their housing and does away with individual referrals to rent officers. Tenants are also able to make clear comparisons on the levels of support available towards their housing costs in different areas and for different property sizes.
6. However, difficulties and uncertainties remain for those moving into work. Concern about whether, and how much, Housing Benefit will be paid in work can leave some people lacking confidence about moving off benefits. The complex interaction with other benefits and weekly adjustments in payments for those who work variable hours can also reduce the incentives for work, particularly in high cost areas.
7. In addition, the implementation of the Local Housing Allowance has raised problems with high rents in some areas. The way in which rates are set has meant that customers in some areas have benefited more than others. In some areas, Housing Benefit can support customers to live in accommodation that many people in work cannot afford. This makes it harder for customers to come off Housing Benefit when they move into work. Furthermore, including high rents when setting Local Housing Allowance rates has driven up benefit levels and has contributed to the annual Housing Benefit budget rising more than it otherwise would have done.
8. That is why further reforms are needed. This consultation sets out how we will reform Housing Benefit to address both of these issues. We will deliver a simpler and fairer system of housing support which supports work incentives, excludes the highest rents which are distorting the system and pays a fair rate of benefit to customers whilst also protecting the taxpayer. It also sets out our long-term aspiration to move towards greater integration of Housing Benefit into the wider tax and benefit regimes.
9. More integrated benefit provision is not something we could introduce overnight. Change of this order will take time if it is not to involve unacceptable cost and be difficult to

implement. We will also need to ensure that the changes we make go hand in hand with wider housing policies to build more social and affordable housing in mixed communities. So the measures in this paper are both those we would like to implement quickly as well as those which we will deliver as part of our long-term reform of the benefit system.



# Supporting people into work: the next stage of Housing Benefit reform

## What is Housing Benefit?

- 1.1 Housing Benefit is an income-related benefit which helps 4.5 million households in Great Britain with the cost of rented accommodation. It is a stand alone benefit, designed and administered separately from other benefits, and is paid to people on a low income to help them meet the costs of their rent.
- 1.2 It is administered by local authorities, alongside Council Tax Benefit, according to a national set of rules and regulations.
- 1.3 It is available to tenants renting their homes in either the private or social rented sectors but it does not provide help with mortgage costs or non-rent related housing costs. It is available to customers in work or out of work; of working age or pension age. Eligibility for Housing Benefit may be determined by receipt of certain qualifying benefits, or may be paid to people with some limited amount of savings, or who work but have a low income.
- 1.4 Customers living in the social rented sector, who are in receipt of certain other income-related benefits, usually receive help that is equal to all of their eligible rent. Customers living in the private rented sector have their benefit entitlement restricted to an amount considered to be reasonable for the area.
- 1.5 Prior to the introduction of the Local Housing Allowance, tenants had their maximum benefit entitlement restricted by an individual assessment of their accommodation made by rent officers. The Local Housing Allowance is a simpler, less bureaucratic system which gives customers more independence and choice. Restrictions are no longer based on individual rent officer assessments but on typical rents for the area. If customers can find accommodation at less than this rate they can keep the difference, up to £15 each week.

## Housing Benefit reform

- 1.6 During the last 10 years this Government has transformed its approach to the welfare system, improving support for those who need it most, whilst at the same time asking more of people in return. The next step is to apply the same principles of support and incentives to Housing Benefit.
- 1.7 The Government has strengthened incentives to work by introducing the New Deal and extended this provision to a wider range of people, for example those receiving Incapacity Benefit. Additional payments available for people moving off out-of-work benefits, including the Job Grant, In-work Credit and Return to Work Credit have helped people through the transition into full-time work. And we have reformed the benefit system to support the move to work, for example by the introduction of

Employment and Support Allowance. Our White Paper<sup>1</sup>, published last year, set out the next stage of this reform programme and the aim is to ensure that no-one who can work is left behind on benefits. And we set out, in *Building Britain's Future*<sup>2</sup>, how we will take the United Kingdom out of recession, into recovery and modernise our public services.

- 1.8 Under our reforms, customers now have a right to expect support from a modern welfare system but they also have responsibilities. We believe that most people of working age should be in work or preparing to move into work in return for the help that the benefit system provides. An affordable system of housing support, which creates incentives to work, could play an important role in building economic recovery.
- 1.9 Our principal objective for a reformed Housing Benefit system is that it should complement our wider welfare programme by supporting people to move into work. But it should also support their aspirations for a decent home in a mixed community, and it should be affordable and represent value for money.
- 1.10 The introduction of the Local Housing Allowance has improved choice for customers by providing for a fairer way of calculating benefit entitlement based on the area in which they live and household size. It has delivered a far more modern system which ensures that benefit rates are made clearly available. Customers can then make more informed choices about their housing needs and clear comparisons about the levels of support which is available towards their housing costs. It also provides greater personal responsibility by, in most cases, paying benefit directly to the customer.
- 1.11 However more needs to be done to support work incentives. The complex interaction between Housing Benefit and other benefits and tax credits can still leave people concerned or confused about the gains to work.
- 1.12 In addition the introduction of the Local Housing Allowance has also been accompanied by a greater increase in Housing Benefit expenditure than we had expected originally, with customers in some areas benefiting far more than others from the ability to keep up to £15 excess over their rent. In some areas, the presence of very expensive properties has distorted the calculations and meant some tenants are able to rent properties or are placed in temporary accommodation which is much more expensive than those that other households can afford, even where decent lower cost alternatives are available. If we are to address these unintended consequences, we will need to go further with our reforms in the future.
- 1.13 In the interests of fairness, and to help bring costs down, we announced at Budget 2009, that from April 2010 we would remove the provisions for Local Housing Allowance customers to keep benefit in excess of their rent liability. But as a result of the public consultation we conducted in the summer, it became clear that this proposal might not deliver the savings anticipated and implementation without further consideration would have other disadvantages.

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<sup>1</sup> *Raising expectations and increasing support: reforming welfare for the future*. December 2008

<sup>2</sup> *Building Britain's Future* CM7654 June 2009

- 1.14 Therefore as the Pre-Budget Report announced, we will not implement the withdrawal of the £15 excess in April 2010 and will delay reform for a year. This will allow us to consult on ways that Housing Benefit can support people back to work, target resources where they are needed most, and ensure the rates of Local Housing Allowance fairly reflect the rents typically paid by other working households who do not get Housing Benefit, and ensure that expenditure can be controlled. We will then be able to develop a policy design that will best meet all our objectives.



## Our reforms so far

- 2.1 When this Government came to power, Housing Benefit administration was often poor with wide variations across the country. Administration suffered from complexity, a lack of investment and a low strategic profile.
- 2.2 One of our first priorities was to support improvements in the administrative performance of local authorities. In too many cases, customers were forced to wait an unacceptable length of time to receive their benefit. This put their homes at risk and jeopardised their chances of moving back into work quickly.
- 2.3 The Government has tackled poor administration head on. In the five years to 2007/08, the average time taken to process a new Housing Benefit claim has more than halved, from 55 to 26 calendar days<sup>3</sup>. For the worst performing 15 per cent of local authorities, the average time taken to process a new claim has fallen by 45 calendar days. There has been a similar dramatic improvement in the average speed with which changes in circumstances are processed, falling from 19 calendar days five years ago to 8 days in 2007/08. There has also been a 75 per cent reduction in the number of Housing Benefit complaints to the Local Government Ombudsman down from 4,028 in 2000/01 to 929 in 2008/09.
- 2.4 Our other main priority was reducing the high levels of fraud and error in the benefit system. The Government's strategy is showing good results across the benefit system as a whole, with overpayments now a third less than they were in 2000/01. However, the complexity of the Housing Benefit rules, changing caseloads and the influence of the economic downturn make the challenge of keeping some types of fraud and error to a minimum substantially different for Housing Benefit than for other benefits.
- 2.5 Whilst the National Statistics published in November 2009 show that Housing Benefit fraud and error overpayments have remained at broadly the same level since 2002/03, improvements have been achieved at a lower level. The greatest success has been the reduction of the amount of official error by almost half since 2002/03, with fraud down by around a quarter over the same period. Customer error has increased by approximately a third since 2002/03, but it has been reduced since its peak in 2005/06.
- 2.6 We keep the strategies we have in place for reducing fraud and error in Housing Benefit under constant review to ensure they are effectively targeting those areas that bring about most loss. The error strategy we published in January 2007 has brought some improvements and we are looking to build on this success to achieve further reductions in the future, particularly in fraud and customer error.
- 2.7 We are continuing to work with local authorities to ensure that Housing Benefit and Council Tax Benefit are delivered ever more efficiently. The In and Out of Work Project improves the service we provide to customers who move frequently in and out of employment by cutting the time taken to process claims and reducing the need to deal with more than one agency.

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<sup>3</sup> The number of days is calculated from the date that the claim is received until the date that the decision is made, including time taken by the customer to provide information and evidence.

- 2.8 We are doing more to make sure that local authorities have efficient access to claim information upon which to base benefit assessments by giving local authorities secure access to benefit and tax credit information through the Customer Information System. We have nearly completed a project to transfer claims electronically and we have also implemented successfully Government Connect—a secure way of transferring information between local authorities and central government.
- 2.9 Finally, as discussed fully in this document, we have successfully introduced the first major structural reform of Housing Benefit since 1988, the Local Housing Allowance.

## The In and Out of Work Project

As part of the Government's wider Service Transformation agenda, the Department for Work and Pensions and HM Revenue and Customs have established a joint working programme to identify where improvements could be made to the service offered to our customers by working more closely together. The project is focused on improving the service that we offer to customers who move in and out of work and who have to deal with Jobcentre Plus for their out of work benefits, HM Revenue and Customs for tax credits, and local authorities for Housing and Council Tax Benefits.

### Pilots

Research has told us that some customers have to make multiple contacts to three separate organisations to pursue their claims, adding delays to processing times. Customers found the process time-consuming especially where each organisation required the same information and evidence.

We undertook pilots in six local authority areas: Lambeth, Liverpool, Merthyr Tydfil, Sedgemoor, West Lothian and West Somerset. The pilots began in September 2007 and covered a total of 38 sites: 6 local authorities, 2 Contact Centres, 24 Jobcentres, 5 Benefit Delivery Centres, and the Tax Credit Office.

### Evaluation

We evaluated the results of these new processes and found that:

- Experience of customers had been significantly improved;
- Customers received payments more quickly;
- Customers had increased confidence to take up short-term work;
- Most staff involved believed that they were delivering better customer service; and
- Processing times for Jobseeker's Allowance, Housing Benefit and Council Tax Benefit have improved by up to 15 per cent.

### National Implementation

We have made the decision to implement the In and Out of Work processes nationally. By the end of November 2009, 312 local authority areas had adopted the new processes with a further 60 planned for December. We plan to complete national rollout by March 2010.





# The case for Housing Benefit reform

- 3.1 Housing Benefit shares the fundamental objectives of the wider welfare system in providing a safety net when necessary to help people on a low income live in a good quality home. But it must also embed the notion that work is the best route out of poverty. In order to achieve these objectives, Housing Benefit must be clear and accessible for customers and staff; it must incentivise and support people to return to work; and it must ensure that resources are targeted where they are most needed.
- 3.2 In Budget 2008, the Chancellor of the Exchequer set out the Government's intention to review the working age Housing Benefit system. This review looked at the effectiveness of Housing Benefit in promoting work incentives, efficiency, fairness and value for money. We will take forward the conclusions we drew from the review through further fundamental reform of Housing Benefit in five key areas.

## Supporting people into work

- 3.3 Over the past 12 years, the welfare system has been reformed for the better. We have provided increasing support to help people move into work whilst raising our expectations of individuals to take up the help that is on offer. The introduction of the National Minimum Wage and the tax credit system have meant that almost everyone is now better off in work than on benefits.
- 3.4 The review showed that Housing Benefit needs to do more to support people into work. For some, the gains of moving into work are not clear enough and many customers are unaware that Housing Benefit can be claimed in work. Also, the anxiety associated with the transition into work can lead people to decide not to move into work if they fear that they will be unable to pay their rent. This fear is compounded when people do not know the effect that changes in circumstance will have on their benefit entitlement. The complex interaction with other benefits and tax credits, and the impact on benefit withdrawal rates when income increases, can discourage people from moving into work even when they would be better off financially by doing so.

## Affordability and sustainability

- 3.5 We face challenges with the cost and sustainability of Housing Benefit in the future. Housing Benefit expenditure has risen in real terms over the last ten years. There are a number of reasons for this, including policy measures to address child poverty such as the disregard of Child Benefit. There have also been significant increases in caseload recently indicating how well we are supporting people through the recession. But the main factor driving increased expenditure is rent increases in both the private and social sector.
- 3.6 The implementation of the Local Housing Allowance has also been accompanied by higher than expected costs due to factors such as changes in the size of benefit areas, removing the ability of rent officers to exclude exceptionally high rents from benefit calculations and increased numbers of people claiming Housing Benefit. In some high

priced areas, particularly the most expensive parts of major cities, Housing Benefit customers may be able to access much more expensive accommodation than working households not eligible for benefit. Some areas have also benefited far more than others from the ability to keep a £15 excess.

- 3.7 Further reforms are needed to address these issues and ensure Housing Benefit entitlement is based on a fair set of rules that supports decent accommodation for tenants in mixed communities, but also supports work incentives and delivers value for money for the taxpayer too.

## Choice and responsibility

- 3.8 The Local Housing Allowance introduced the principle of paying a flat rate of allowance to customers living in the private rented sector. Providing customers with the ability to keep some excess benefit above their rent introduced an important financial incentive for tenants which encouraged them to shop around for the best value property or negotiate their rent with their landlord. This meant that Housing Benefit customers are better able to make a choice between the quality and price of their accommodation. It is also much less bureaucratic than the previous scheme which relied on rent officers to make property specific decisions on individual Housing Benefit claims.
- 3.9 We need to ensure there is an appropriate system in place that controls the levels of rent we will pay as support for our customers—it would not be right for Housing Benefit tenants to have access to unrestricted support for their accommodation. But neither do we want to return to the administratively complex system of rent officer referrals which the Local Housing Allowance is replacing. In addition to empowering tenants, we believe the provision of an excess may help exert controls of rents charged to Housing Benefit customers. We estimate that average amount of excess awards, for those customers who have them, is around £11 each week.
- 3.10 However, the way that rates have been set has driven up costs compared with the previous scheme. In order to control these rising costs, the Government announced in Budget 2009 that customers would no longer be permitted to receive more in Housing Benefit than they have to pay in rent and the Department subsequently consulted on these proposals. In the responses to the consultation, concerns were raised that there could be disadvantages in withdrawing the excess in that it removes an incentive for customers to make choices about their accommodation which would help drive rents down.
- 3.11 We have therefore announced, in the 2009 Pre-Budget Report our intention not to implement the planned withdrawal of the £15 excess this April and instead to delay the reform for a year and launch an immediate consultation exercise on options for Housing Benefit reform. We are consulting on ways that Housing Benefit can support people back to work, target resources where they are needed most, and ensure that the rates of Local Housing Allowance fairly reflect the rents typically paid by other working households who are not entitled to Housing Benefit. This will allow us to develop a detailed policy for the Local Housing Allowance to meet our objectives of affordability, fairness and enhancing work incentives.

## Decent housing and mixed communities

3.12 One of our aims for Housing Benefit is that it should help tenants live in rented property of reasonable quality. We know that poor property conditions impact disproportionately on low income households and that those receiving at least one means tested benefit are more likely, in England, to live in properties which fall short of the Decent Homes standard. We have been working hard to tackle this issue and increase the percentage of vulnerable households living in decent homes in the private rented sector<sup>4</sup>.

3.13 We also want to see if Housing Benefit could also be a lever to improve the carbon footprint of private rented properties, both by building on energy efficiency strategies already in place and potentially developing new policies in this area.

## A long-term vision for Housing Benefit

3.14 We believe that the reform of Housing Benefit needs to be based on the following key principles:

- It supports customers into work;
- It supports the Government's wider policies to increase the supply of good quality social and affordable housing in mixed communities;
- It is affordable and sustainable in the long term; and
- It provides a fair level of support whilst meeting the housing needs of low income households and acts to prevent homelessness.

3.15 Housing Benefit needs to be simpler to understand and administer in order to improve the service offered to our customers. This simplification needs to deliver more stable payments of benefit, in a more predictable way, so that people can have confidence that they will be able to pay their rent on time especially whilst they are making the move into work.

3.16 In the long term, we think that there is a good case for moving away from a separate Housing Benefit system just as we are attracted to the idea of a single working age benefit. This might eventually mean more integration with other parts of the benefits system, which would simplify both the rules and administration. This could break down barriers to work by simplifying the structure of benefit withdrawal rates once in work together with less severe deduction rates across benefits. It could also allow more effective, and efficient, integration of the services provided to customers.

3.17 This is a long-term aspiration. Change could not happen overnight and would have to take place in several stages. But the proposals set out in this consultation represent some of the steps we need to take to set us on the road to a long-term vision for Housing Benefit.

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<sup>4</sup> *PSA target 7 – Decent Homes: Communities and Local Government publication*



# Supporting people into work

- 4.1 Work plays a crucial role in realising the full potential of individuals and the communities in which they live. It is essential that the right support is available at the right time to enable people to become independent and to lead fulfilling, productive, lives. Housing Benefit needs to help provide this support.
- 4.2 Housing Benefit needs to do more to help people take up work opportunities. We have identified four key areas where we need to do more to support customers move into work.

## Awareness and understanding

- 4.3 Despite the financial incentives to move into work, take up of in-work Housing Benefit is still low. We estimate that around half of working people entitled to Housing Benefit still do not claim it.
- 4.4 We know that many customers remain worried about moving into work because they do not know that they may still be able to get Housing Benefit whilst working<sup>5</sup> and they fear they might not be able to pay the rent. Of those who do, too many do not find out about this help until after they have accepted an offer of employment.
- 4.5 We are delivering a marketing and communications strategy which demonstrates that work pays and that customers are aware of the financial support which may be available to them whilst they are working. Our strategy is targeting key partners such as welfare rights organisations, housing associations and landlord groups to get the message across. This will ensure that organisations providing advice and support to customers have the correct information when giving employment advice to customers. The strategy will make sure that customers are aware of the financial support that is available to them so that they can make informed decisions to seek out and accept employment opportunities.

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<sup>5</sup> *Housing Benefit and Council Tax Benefit as in-work benefits; claimants and advisors knowledge, attitudes and experiences* DWP Research Report No 383 September 2006

Working Benefits campaign: raising awareness of benefits that can be paid in work

Housing Benefit and Council Tax Benefit can be paid to people who are working and earning. But awareness and understanding of this is low amongst out-of-work benefit customers and some professional advisers in the private and social housing sector.

Had these customers known that they could go back to work and still get Housing Benefit, it may have encouraged them to look for employment.

Find out more at: <http://www.dwp.gov.uk/adviser/updates/working-benefits>

## Easing the transition into work

- 4.6 The In and Out of Work Project has shown how it is possible to smooth the processes involved for those moving in and out of work regularly. It is more certain because customers need to provide information in support of their claim just once. But we recognise that the transitional period moving into work, where wages may fluctuate or be uncertain, is the most difficult one for many customers to cope with. This transitional period is one where we need to give people greater certainty and we want to make sure that Housing Benefit provides it.
- 4.7 Housing Benefit already helps support people during this time by paying benefit, at the out of work rate, for four weeks after starting work. This provides valuable assistance at a difficult time.
- 4.8 But we think that we can do more by replacing the existing arrangements with a new Transition into Work Payment. This could provide extra Housing Benefit, at the out of work rate, for people moving into work but there would be a longer qualification period in order to become eligible so that help is focused on those furthest from the labour market.
- 4.9 Transition into Work payments could work by fixing Housing Benefit entitlement for three months at the rate in payment immediately before the customer moved into work. Most changes in circumstance, including changes in the amount of wages received, could be ignored during the period of the award regardless of whether they were favourable or unfavourable. This would be simple for customers to understand and would require very few changes in circumstance to be reported or processed by the local authority.
- 4.10 At the end of the three month Transition into Work period, the local authority would review the customer's current circumstances under the usual entitlement rules. Depending on those circumstances, the customer could still be eligible for Housing Benefit which could be re-assessed quickly without the need for a new claim being made or there being a break in payment.

Question 1. Do you agree that a Transition into Work Payment will help to ease the move into work?

Question 2. What would be the main features of such a scheme to secure maximum impact and minimise risk?

## Fixed period awards

- 4.11 Housing Benefit rules are often complex requiring customers to report changes in circumstances whenever they occur so that payments can be recalculated. These rules create complexity and uncertainty for working customers particularly because they are required to report even minor changes in income to the local authority.
- 4.12 The requirement to report every change in earnings to the local authority also has a major impact on the levels of fraud and error in the Housing Benefit system, since any change not reported in time is likely to lead to incorrect amounts of benefit being paid to the customer.
- 4.13 We propose to build on the example of the tax credit system and introduce a system of fixed period awards for Housing Benefit customers which will fix the award of benefit for six months.
- 4.14 A six month fixed period award would strike the right balance between removing the need to report minor fluctuations in circumstances whilst recognising that major changes will occur over time that need to be reflected in the benefit award. The changes that would need to be reported would be subject to detailed design consideration. This would mark a radical change to current Housing Benefit rules which require changes to be reported as soon as they occur. Awards would run for fixed periods but could be renewed as long as the customer continued to satisfy the eligibility rules.
- 4.15 For those in work, benefit awards could be fixed for six months. This could mean that Housing Benefit would be a fixed weekly award that would be unaffected by changes in circumstances including changes in income and earnings. At the end of the six months, the local authority would reassess the claim based on current circumstances. This would not necessarily require a new benefit claim or filling out lengthy forms: lessons learned from ‘rapid reclaim’—a streamlined reclaiming process—could be adopted to allow for a fast and straightforward benefit re-assessment.
- 4.16 Another option would be to fix the earnings element only of the Housing Benefit calculation for a fixed period. In this way, other changes in circumstances would still need to be reported, and processed, in the usual way but changes in earnings would not need to be reported until the end of the fixed period.
- 4.17 Alternatively, changes that fell within a certain band would be ignored as with our proposal for Transition into Work Payments. Customers would be told of those changes that would need to be reported at the start of the award and what changes could be ignored.

Question 3. Should we introduce fixed period Housing Benefit awards for those customers in work?

- Question 4.           What would be the main features of such a scheme to secure maximum impact whilst avoiding any perverse incentives and minimising risk to those whose income falls significantly?

## Tackling high benefit rates

- 4.18 We will see in the next chapter how, in some expensive areas, high benefit rates can represent a disincentive to work or increase earnings whilst in work. The reforms which we will set out later in this consultation will ensure that housing choices are based on similar factors regardless of whether the tenant meets their rent payments entirely out of earnings, whether their earnings are supplemented through benefits or whether they receive full rate Housing Benefit.
- 4.19 This would help to improve work incentives by ensuring that the benefit system does not support customers to be housed in high cost accommodation which would be unaffordable if they moved off benefit. We could do this by ensuring that Housing Benefit rates are set at a level which similar households not eligible for benefit can afford.



## A fair and affordable system

- 5.1 We want to ensure that people on a low income have access to decent housing so the fluctuations in the cost of rented housing are important factors in determining rates of Housing Benefit. But Housing Benefit expenditure is continuing to rise—up to £17 billion in 2008/09. This rise is driven largely by increases in rent levels across all tenancy types.
- 5.2 Part of the issue driving long-term rent increases is lack of supply in the housing market and we are committed to building more homes to tackle this. But we also need to make sure that Housing Benefit is affordable and sustainable in the short and medium term so that the system remains able to provide access to decent housing.

## Fair benefit rates and clearer benefit areas

- 5.3 The fundamental purpose of Housing Benefit is to provide individual support to people on a low income to enable them to afford decent accommodation. In order to determine a fair level of benefit for customers, we need to be clear what we mean by a reasonable level of rent to support through Housing Benefit. We also need to set out: the areas within which to set that rate; what size of accommodation it is reasonable to support through benefit; and whether there are special issues to consider in expensive areas of the country.
- 5.4 The old way of setting fair rents for an area involved rent officers assessing each property, and a maximum Local Reference Rent set by rent officers to reflect the average rents available in the area. The Local Housing Allowance is much less bureaucratic. It is intended to give Housing Benefit recipients access to roughly half the properties available to rent in any given area. This aims to balance the needs of the customer, enabling them to afford decent quality accommodation, with the needs of the taxpayer not to subsidise unreasonably high rents.
- 5.5 Our review into the Housing Benefit system has shown that we need to look again at the way we set Local Housing Allowance rates at the median of the private rental market in each area. In particular, we need to look at the effects of high rents in the system, as well as the effects of removing Housing Benefit properties from the calculation. In some areas—especially those which include very high cost housing—the way the median is calculated has led to significant increases in the level of the Local Housing Allowance compared to the old Local Reference Rents which suggest they do not properly reflect the nature of the local housing market.
- 5.6 For most tenants, the Local Housing Allowance rates give access to reasonable but not luxurious accommodation. But in expensive areas, these rates are distorted by the presence of large numbers of expensive properties; properties most working households could never consider renting. Also, large areas which bring high-cost and cheaper neighbourhoods together can distort benefit rates for all. So, for example, rents charged for very expensive properties in one neighbourhood can drive up benefit rates for private tenants living in lower cost areas nearby.

- 5.7 In addition Housing Benefit properties are excluded from the calculation of the average rents in order to avoid issues of circularity. However this may also provide an unrepresentative picture of the range of private rented sector properties available in the area.
- 5.8 There are three consequences of this. Landlords can increase their rents for Housing Benefit customers above the market rate, pushing up the costs for the taxpayer. Tenants in expensive areas can become trapped in high cost accommodation. People who do not claim Housing Benefit who could not afford to live in such properties are also disadvantaged.
- 5.9 High Housing Benefit rates can also trap people in poverty and act as a disincentive to work because customers who move into employment will need to earn correspondingly more in order to come entirely off Housing Benefit. It also damages mixed communities where some areas are made up solely of very wealthy households and those eligible for Housing Benefit.
- 5.10 We are determined to change this by further reform to the way Local Housing Allowance rates are set to remove the most expensive properties which are distorting the system.
- 5.11 We also need to look at the areas within which those rates apply. Housing Benefit must cater for a wide range of market conditions across the country with typical rents being much higher in Central London, for example, compared to some other areas. But we need to be sure that the boundaries of areas of similar rents are set in a way which is transparent and that people can understand.
- 5.12 Under current Housing Benefit rules, Broad Rental Market Areas are set by rent officers who use proxy indicators to determine the boundaries of local rental markets. These indicators are based on access to a range of health, education, recreation, banking and shopping facilities. The setting of these areas is not always clear and has been subject to disagreement. Areas are also quite large sometimes meaning that customers have to move some distance in order to access affordable housing. So we want to hear views about how these areas should be set.
- 5.13 We want to consider a range of options for further reform but we believe that we should reform the way that benefit rates are set by excluding the most expensive rents from the Local Housing Allowance calculation. We would welcome views on how we could change the way that Local Housing Allowance rates are set and also any other options we should consider. We could:
- exclude some of the most expensive properties locally, as happens with the Local Reference Rent scheme which the Local Housing Allowance is replacing. For example, in many areas, removing the top 5 to 10 per cent of rents in a calculation would bring Local Housing Allowance rates back into line with the Local Reference Rent rates although there are significant variations, particularly in the highest cost areas;
  - exclude some of most expensive properties nationally from our calculations, and then set Local Housing Allowance rates with reference to the remaining properties. This

would mean that, in most areas of the country, Local Housing Allowance rates would be largely unaffected. However, in expensive areas such as Central London, the highest cost properties with high rents would be excluded meaning that Local Housing Allowance rates would be reduced to more reasonable levels. It would remove the distorting effect caused by the presence of very high cost accommodation to rent when fair rates of benefit are calculated;

- set rates within smaller rental areas, so that rents used are more tailored to the local market and community. We would also need to consider how we could ensure that there was still a representative sample of rents within those smaller areas so that rates reflect a typical rent;
- set rates according to the rents paid by working households in the area who are not on Housing Benefit. Research is underway at the moment to look at rents paid by other working households who earn just above the Housing Benefit threshold;
- review the way Housing Benefit properties are taken into account in the calculation of the Local Housing Allowance to ensure the assessment is representative of the whole local private rented sector;
- group together areas with similar benefit rates to arrive at a national series of benefit rates divided into bands. Under this banded approach, the same Local Housing Allowance rates would apply in areas where rents are similar even if those areas are in different parts of the country. This approach could work alongside the reformed system of benefit areas;
- determine Broad Rental Market Areas by taking different indicators into account when determining the boundaries of a market such as the distance travelled to employment by low-income workers. Alternatively, areas could be based on existing administrative boundaries such as local authority areas which would provide for greater simplicity and clarity.

5.14 Approaches of this sort would make the Housing Benefit system fairer and more affordable but still provide access to decent housing in mixed communities across the country. However, any households directly affected by changes would of course be supported by appropriate transitional protection arrangements. We would welcome views on how long we would provide this protection and the eligibility rules to receive it.

5.15 In order to support our reforms, we commissioned a research project to analyse, at a sub-regional level, the housing choices made by these other working households not on Housing Benefit and the costs that they pay for housing. We expect this research to deliver initial findings in 2010 to inform our consideration of consultation findings.

5.16 So our reforms will strike the right balance in the way that Housing Benefit levels are set. Customers will still be able to access decent housing but the levels of benefit they receive will no longer be distorted by the presence of high cost accommodation in the area. Taxpayers too will get a better deal through the savings which our reforms will deliver.

- Question 5. What is the level of rent above which it would not be reasonable for the taxpayer to offer support?
- Question 6. How should we set benefit rates at an appropriate level so that they reflect the housing choices of other working households not eligible for benefit?
- Question 7. How could we set benefit rates to reflect different market conditions in different areas?
- Question 8. Would excluding the most expensive rents when setting Local Housing Allowance rates result in fairer levels of benefit?
- Question 9. How should we set appropriate Housing Benefit areas?

## London issues

- 5.17 Throughout our reforms we recognise that significant rent variations exist across the country but that rents in London are typically much higher than in other areas. After housing costs have been taken into account, people are more likely to live in a low income household in Central London than in any other area of the country. There also tends to be a wider variation in rents in Central London which makes the application of a national set of rules, aligning benefit rates to the middle of the market, less likely to represent a fair level of access to the rental market.
- 5.18 We do not want the circumstances that exist in London to dictate Housing Benefit rules nationally but we cannot allow the problems in London to go unaddressed. We want your views on how we can address the issue of high rents and benefit rates in London through applying the banded approach or capping rates at the level affordable by other working households not eligible for Housing Benefit.

## Fairer size criteria

- 5.19 Under current Local Housing Allowance rules, benefit is calculated so that the customer is able to afford a property with a certain number of bedrooms based on the members of the household. These arrangements allow for a separate bedroom for each adult, or adult couple, and for each child aged 16 or older. Younger children are assumed to be able to share a bedroom, subject to certain limits. These size criteria are different from many of the standards used by local councils and housing associations to allocate social housing.
- 5.20 At the same time the size criteria do not allow for additional pressures that some families face—such as the needs of disabled people to have space for a carer to stay overnight, or the needs of single parents who have shared custody of children.

5.21 In the current fiscal climate it is important to avoid increases in cost pressures. However we wish to consult on whether there are changes to the size criteria which would not increase overall costs but would be more appropriate for meeting family needs.

5.22 For example we want to know views on whether it would be fair to raising the age at which a young person qualifies for a separate bedroom from 16 to 18 in line with more widely used criteria in other sectors, and to use the savings to provide for extra space for disabled people or parents with shared custody of children.

Question 10. Should the Local Housing Allowance size criteria be adjusted?

Question 11. Should Housing Benefit be extended to provide for an extra bedroom where there is an established need for a room for a non-resident carer?

Question 12. Is there a case for providing for an extra bedroom in the size criteria to help parents who need to care for non-resident children if there is evidence that working households can do so?



## Decent housing, mixed communities

- 6.1 One of the fundamental objectives of the Housing Benefit system is that it should enable people to afford decent quality rented housing. But there is concern that, in some cases, it may be subsidising tenants to live in poor quality accommodation which does not meet modern standards of energy efficiency or carbon footprint. This is bad for the tenant, keeping them in fuel poverty and represents a bad deal for the taxpayer. We are therefore keen to explore options that could improve the quality of accommodation occupied by those on Housing Benefit.
- 6.2 The Government has set a target to build 240,000 new homes per annum by 2016. This growth must be built on principles of energy efficiency and a low carbon footprint as we intend to reduce CO<sub>2</sub> emissions by 80 per cent below 1990 levels by 2050. In England, the Government is committed to being the first in the world to require zero carbon new build homes as a matter of law, and tough new energy efficiency standards, from 2016.
- 6.3 The Government will also be consulting on changes to the Code for Sustainable Homes. The Code covers nine different aspects of sustainability. It is a voluntary standard, not mandatory for private sector builders, but is required by the Homes and Communities Agency as a condition of funding for the National Affordable Housing Programme and can be part of local planning conditions.
- 6.4 Access to good quality affordable housing is vital if people are to realise their full potential. The private rented housing sector plays a crucial role in providing flexible housing choices for people who cannot afford, or choose not to buy their own homes. The Government's response to the Julie Rugg review of the private rented sector<sup>6</sup> makes clear its commitment to promoting a thriving, good quality private rented sector which offers flexible and affordable housing choice. The Scottish Government has also completed a review of the private rented housing sector in Scotland.<sup>7</sup>
- 6.5 Increasing housing supply will help to limit the growth of rents and house prices giving more people more chances of a good quality home and more choice over where they live. But we expect housing in the future to also be more energy efficient and have a lower carbon footprint. Our aim is for Housing Benefit to support this vision.
- 6.6 We feel that more can be done to work together with landlords to improve the quality and energy efficiency of their properties. The private rented sector is the most energy inefficient of all housing sectors. We could, for example, develop a package of measures which offer stronger incentives for landlords to make gradual improvements to their properties. Such a package could balance increased conditionality with a drive to ensure that landlords are aware of, and are helped to access, the financial support which exists to help them improve the energy efficiency of their properties such as the Carbon Emissions Reduction Target and the Landlords Energy Saving Allowance.

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<sup>6</sup> Rugg, Julie and Rhodes, David (2008) *The private rented sector: its contribution and potential*, York: Centre for Housing Policy University of York

<sup>7</sup> *Review of the Private Rented Sector*, The Scottish Government March 2009

- 6.7 We would like to consider whether the payment of Housing Benefit should be made conditional on housing meeting certain defined standards in terms of quality, energy efficiency and carbon footprint. Housing Benefit would not be payable on properties which fell below certain standards.
- 6.8 The direct payment of Housing Benefit to customers is an important component of our reforms to the system. Direct payments provide customers with the responsibility for handling benefit payments, and paying their rent, which they will need when moving into work. Many customers now operate bank accounts successfully—in many cases for the first time—as a result of this responsibility.
- 6.9 However, some stakeholders have raised concerns about the operation of direct payment of Local Housing Allowance to customers and we know that, in some cases, safeguard procedures are not being operated well enough. This is why we are working with local authorities to improve the guidance which helps them make decisions and to improve the quality and consistency of the decisions themselves.
- 6.10 But we would also like to consider returning an element of choice to customers which would enable them to decide to have their benefit paid directly to the landlord. We could consider requiring landlords to improve the quality or energy efficiency of their property in exchange for receiving direct payments.
- 6.11 The standards could include the Energy Performance Certificate Ratings, the Housing Health and Safety Rating Systems, operating in England and Wales, or the Repairing Standard—a standard for the repair of private rented accommodation in Scotland.

Question 13. Should Housing Benefit entitlement be conditional on property meeting certain standards?

Question 14. Should a direct payment to the landlord be linked to the property meeting a certain quality or energy standard?

## Local lettings agencies

6.12 The private rented sector has a key role in providing affordable housing to those on low incomes. Many local authorities make full use of the private rented sector to give housing options for those in housing need. The Government is recommending that local authorities set up local letting agencies to develop a more coordinated approach to securing private rented sector tenancies for low-income households. We would also like to see whether Housing Benefit could have a role to play in the operation of these agencies.

Question 15. We would welcome views on how Housing Benefit can contribute to the delivery of improvements in the standard of private sector housing for tenants.



## Temporary accommodation reforms

- 6.13 The provision of Housing Benefit for customers living in temporary accommodation has become increasingly expensive despite recent reductions in the number of households living in temporary accommodation. Such high rents represent a barrier to customers entering employment and means that some families can remain without work, living in temporary housing, for years.
- 6.14 We are also concerned that some of the highest levels of Housing Benefit are being paid to those placed in temporary accommodation by their local council. We want to explore further ways to deliver lower cost temporary accommodation and to ensure that where councils are able to negotiate lower rents for temporary accommodation in the private rented sector than the Local Housing Allowance rate for the area, those lower costs can be passed on to tenants and the taxpayer.
- 6.15 The Government is determined to change subsidy rules to better reflect the going rate for property in the area and encourage local authorities to charge tenants more reasonable rents.

## The social rented sector

- 6.16 The Government is also keen to help the social rented housing sector play a greater role in helping tenants move into work. Despite the advantages of stable, affordable, rents which are a feature of living in the social sector, too many tenants suffer from multiple disadvantages which can make the move into work more difficult.
- 6.17 We are addressing these problems by working together with local authorities and social sector landlords. The Enhanced Housing Options Trailblazers, operating in 90 English local authorities, deliver housing services which are linked to advice about employment and training. The extension of Choice Based Lettings should make it easier for tenants to move from one part of the country to another especially if they are pursuing an offer of work. Our Total Place initiative will also test new approaches to the efficient use of resources and service improvements in local areas.
- 6.18 But we want to see what more central Government, local authorities and social landlords can do to help extend choice and help people back into work.



## Towards tomorrow's housing support

- 7.1 The reforms that we set out in this consultation will put the customer at the centre of the service that we offer especially in terms of helping them move back into work. These reforms could also represent a crucial step in positioning Housing Benefit in a way which will allow us to move towards greater integration of benefits when, or if, the time is right.
- 7.2 Housing Benefit is unique among the income-related benefits in that it is paid to all client groups and to people who are in work as well as those who are not. This means that every major welfare reform will have at least some effect on Housing Benefit. More importantly, failure to take account of such effects could easily frustrate the full achievement of wider welfare reform objectives.
- 7.3 With this in mind, an important aspect of Housing Benefit reform in recent years has been to align the rules with associated benefits or credits. However we need to go much further to make it easier and simpler for tenants, and to better support work. Our priority for the medium term will be to better align housing support with other benefits and taxes and to link it to wider welfare reform including developments such as a single working age benefit. This will enable us to provide more integrated support, address issues of high benefit withdrawal rates and bring together the delivery of housing support with other welfare provision. A range of options will need to be considered including:
- Merge Housing Benefit with other income-related benefits;
  - Create a form of housing tax credit;
  - Maintain a reformed Housing Benefit as a separate extra-costs benefit.
- 7.4 Any long-term restructuring of Housing Benefit would need to involve a number of important steps. These steps could be:
- design a more flat-rate approach to benefit rates although important conditions will have to be satisfied before we consider taking forward these reforms in the social rented sector;
  - help more customers to receive their benefit directly, rather than have it paid to their landlord. Again, conditions will apply before we could commence these reforms in the social rented sector;
  - move towards greater integration of the services provided by local authorities and central government agencies, building on the In and Out of Work project;
  - align the reporting period for changes in circumstances more closely with other provision; and
  - align the rates at which benefit is withdrawn when customers are in work so that they are taken into account in the same way across benefits and tax credits.
- 7.5 We have already made a start with our Local Housing Allowance reforms. The flat rate element of the Local Housing Allowance ensures that customers with similar circumstances, living in the same area, receive similar rates of benefit. Our suggestions for reform, which could simplify and band together the geographical boundaries of benefit areas, would lead to far fewer Local Housing Allowance rates nationally. This

would be an important step towards setting reasonable rates as part of a more integrated system.

- 7.6 Whilst we are committed to pursuing our long-term ambitions, we recognise that the considerable differences in rent levels across areas and between tenure types will need careful consideration. In particular, we recognise that market forces do not operate in the social rented sector in the same way as they do in the private rented sector. We also want to increase the supply of affordable, energy efficient, homes in the social sector and believe that this will be supported by reforms to Housing Benefit. But our commitment is that we will not take these reforms forward until the time is right and important conditions have been satisfied.
- 7.7 The Local Housing Allowance is also paid, in most cases, directly to customers and any integrated provision would have to be paid in a similar way. But we recognise that this would be a major change for customers in the social rented sector. This is why we have agreed not to press ahead with plans to extend the principle of direct payments into the social rented sector.
- 7.8 We also set out in this consultation how we have introduced reforms which integrate, to a far greater extent, the services provided by the agencies that provide support for customers. The success of the In and Out of Work Project demonstrates our commitment to move towards greater service integration but we need to do more to bring together different benefit rules, different agencies and different processes in order to place the customer at the centre of the services we provide.
- 7.9 This is why we propose to align more closely the rules which govern how often customers must report changes in circumstances to their local authority. The current rules are complex and present a barrier to customers staying in work. But, just as importantly, they are out of alignment with reporting rules for other benefits. If we are to begin preparing the system for the next steps in Housing Benefit reform, we need to consider how we can bring these rules much closer together.
- 7.10 Structural reforms will reposition the Housing Benefit system, doing more to help customers into work whilst making it fairer and more affordable. They will help us move towards our long-term ambition of integrating Housing Benefit better into the rest of the tax and benefit system.

# Our commitment to listen

## Purpose of the consultation

- 8.1 This consultation seeks views to inform our reforms of Housing Benefit. We would like to hear from all who are interested, including tenants, landlords, local authorities, housing associations, and advice workers. The consultation applies to England, Wales and Scotland. Any issues which may affect the devolved Housing Benefit system operating in Northern Ireland will be subject to separate negotiations. The Department for Work and Pensions has been in discussion with the Devolved Administrations during the development of this consultation document. Our proposals will ensure that Housing Benefit is better able to help people into work, is fairer, more efficiently delivered and represents good value for money for the taxpayer.

## Duration of the consultation

- 8.2 The consultation period begins on 15th December 2009 and runs until 22nd February 2010. This is shorter than the timescale recommended in the Government Code of Practice on Consultation which suggests that consultation should normally last for 12 weeks or more. However, we have consulted informally with a wide range of stakeholders on the reform of Housing Benefit since 2008 and we have put in place additional means by which people may express their views. The formal consultation period has been reduced to 10 weeks in order that we may make informed decisions on the reform of Housing Benefit to fit in with the Budget decision making cycle.

## Consultation arrangements

- 8.3 Please send your consultation responses to:

Housing Benefit Consultation Team  
Department for Work and Pensions  
1<sup>st</sup> Floor  
Caxton House  
Tothill Street  
London  
SW1H 9NA  
Email [hb.evidencereview@dwp.gsi.gov.uk](mailto:hb.evidencereview@dwp.gsi.gov.uk)

- 8.4 Please ensure your response reaches us by 22nd February 2010. We will acknowledge all responses. Please say whether you are responding as an individual, or on behalf of an organisation. If on behalf of an organisation, please make clear who the organisation represents, and how the views of members were obtained.
- 8.5 Copies of this publication can be made available in alternative formats if required. If you have any queries about this consultation, please contact us at the above address.

- 8.6 We have notified this consultation to a large number of people and organisations who have already been involved in this work or who have expressed an interest in it. Please share this document with, or tell us about, anyone you think will want to be involved in this consultation.
- 8.7 We will publish the responses to the consultation in a report on the consultations section of our website <http://www.dwp.gov.uk/consultations/>. The report will summarise the responses and the action that we will take as a result of them.

## Freedom of information

- 8.8 The information you send us may need to be passed to colleagues within the Department for Work and Pensions, published in a summary of responses received and referred to in the published consultation report.
- 8.9 All information contained in your response may be subject to publication or disclosure if requested under the Freedom of Information Act 2000. By providing personal information for the purposes of the public consultation exercise, it is understood that you consent to its disclosure and publication. If this is not the case, you should limit any personal information provided, or remove it completely. If you want the information in your response to the consultation to be kept confidential, you should explain why as part of your response, although we cannot guarantee to do this.

## The consultation criteria

- 8.10 The consultation is being conducted in line with the Government Code of Practice on Consultation. The seven consultation criteria are:
- When to Consult. Formal consultation should take place at a stage when there is scope to influence the outcome.
  - Duration of consultation exercises. Consultations should normally last for at least 12 weeks, with consideration given to longer timescales where feasible and sensible.
  - Clarity of scope and impact. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence, and the expected costs and benefits of the proposals.
  - Accessibility of consultation exercises. Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is designed to reach.
  - The burden of consultation. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.
  - Responsiveness of consultation exercises. Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.

- Capacity to consult. Officials running consultation exercises should seek guidance in how to run an effective consultation exercise, and share what they have learned from the experience.

## Feedback on this consultation

8.11 We value your feedback on how well we consult. If you have any comments on the process of this consultation, for example, how it could be improved, but not about the issues raised, please contact our Consultation Coordinator:

Roger Pugh  
DWP Consultation Coordinator  
1st floor, Crown House  
2, Ferensway, Hull HU2 8NF  
01482 609571  
[roger.pugh@dwp.gsi.gov.uk](mailto:roger.pugh@dwp.gsi.gov.uk)

# Consultation questions

We want your views on the issues discussed in this consultation. This is a list of questions which we would particularly like your views on.

- Question 1. Do you agree that a Transition into Work Payment will help to ease the move into work?
- Question 2. What would be the main features of such a scheme to secure maximum impact and minimise risk?
- Question 3. Should we introduce fixed period Housing Benefit awards for those customers in work?
- Question 4. What would be the main features of such a scheme to secure maximum impact whilst avoiding any perverse incentives and minimising risk to those whose income falls significantly?
- Question 5. What is the level of rent above which it would not be reasonable for the taxpayer to offer support?
- Question 6. How should we set benefit rates at an appropriate level so that they reflect the housing choices of other working households not eligible for benefit?
- Question 7. How could we set benefit rates to reflect different market conditions in different areas?
- Question 8. Would excluding the most expensive rents when setting Local Housing Allowance rates result in fairer levels of benefit?
- Question 9. How should we set appropriate Housing Benefit areas?
- Question 10. Should the Local Housing Allowance size criteria be adjusted?
- Question 11. Should Housing Benefit be extended to provide for an extra bedroom where there is an established need for a room for a non-resident carer?
- Question 12. Is there a case for providing for an extra bedroom in the size criteria to help parents who need to care for non-resident children if there is evidence that working households can do so?
- Question 13. Should Housing Benefit entitlement be conditional on property meeting certain standards?
- Question 14. Should a direct payment to the landlord be linked to the property meeting a certain quality or energy standard?
- Question 15. We would welcome views on how Housing Benefit can contribute to the delivery of improvements in the standard of private sector housing for tenants.











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