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MINISTERIAL COMMITTEE ON WELFARE REFORM

WR(05)

MINUTES 1st-4th

MEMORANDA 2-6

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MINISTERIAL COMMITTEE ON WELFARE REFORM

MINUTES

NO.OF MEETING	DATE OF MEETING	PAPERS CONSIDERED	SUBJECTS DISCUSSED
1st	16.06.05	----------	MEETING WAS CANCELLED
2nd	19.07.05	3 - 6	1 - THE PRINCIPLES OF WELFARE REFORM
			2 - WELFARE REFORM - NEW AMBITIONS FOR WORKING AGE PEOPLE
			3 - HOUSING BENEFIT REFORM - LOCAL HOUSING ALLOWANCE
			4 - PENSIONS HANDLING STRATEGY
3rd	12.10.05	----------	MEETING WAS CANCELLED
4th	18.10.05	----------	MEETING WAS CANCELLED

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MINISTERIAL COMMITTEE ON WELFARE REFORM

MEMORANDA

SERIAL NO.	DATE	BRIEF DESCRIPTION
1	----------	COMPOSITION AND TERMS OF REFERENCE
		(MEMO NO. 1 SUPERSEDED BY MEMO. NO. 2)
2	21.06.05	COMPOSITION AND TERMS OF REFERENCE
3	15.07.05	THE PRINCIPLES OF WELFARE REFORM
4	15.07.05	WELFARE REFORM - NEW AMBITIONS FOR WORKING AGE PEOPLE
5	15.07.05	HOUSING BENEFIT REFORM - LOCAL HOUSING ALLOWANCE
6	15.07.05	PENSIONS HANDLING STRATEGY

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WR(05)1st Meeting **COPY NO** 2

CABINET

MINISTERIAL COMMITTEE ON WELFARE REFORM

CANCELLATION NOTICE

The Meeting on ***THURSDAY 16 JUNE 2005 at 10.30am (90 minutes)** in the Cabinet Room, Downing Street **is CANCELLED**.

SIGNED **SIR ANDREW TURNBULL**
MR P BRITTON
MR R FELLGETT
MS S MCLAREN

Cabinet Office
15 June 2005
* **Meeting is CANCELLED**
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WR(05)2nd Meeting **COPY NO** 2

CABINET

MINISTERIAL COMMITTEE ON WELFARE REFORM

MINUTES of a Meeting held in the Cabinet Room, Downing Street on **TUESDAY 19 JULY 2005 at 4.00pm**

PRESENT

The Rt Hon Tony Blair MP
Prime Minister
(In the Chair)

The Rt Hon David Blunkett MP
Secretary of State for Work and Pensions

The Rt Hon Ian McCartney MP
Minister without Portfolio and Party Chairman

The Rt Hon Alan Johnson MP
Secretary of State for Trade & Industry

The Rt Hon Desmond Browne MP
Chief Secretary to the Treasury

The Rt Hon David Miliband MP
Minister for Communities and Local Government

The Rt Hon Margaret Hodge MBE MP
Minister for Work

Rosie Winterton MP
Minister of State
Department of Health

David Bennett
No10 Downing Street

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SECRETARIAT

Mr P Britton
Ms S McLaren

ITEM 1 – THE PRINCIPLES OF WELFARE REFORM

The Committee had before it a paper (WR(05)3) by the Secretary of State for Work and Pensions.

The SECRETARY OF STATE FOR WORK AND PENSIONS introduced his paper, explaining that the reforms being developed, which would be set out in a Green Paper in November, would be based on the principles which had informed Government policy over the last eight years. The reforms would, therefore, reinforce the principle of rights and responsibilities, matching individual obligations to the mutual responsibility of the community to provide help to those who needed it.

The following points were made in discussion:

a. In setting out the principles behind the reforms, the Government needed to make explicit the interdependence of the support provided at each stage of the life cycle. Tackling child poverty though support for families, for instance, was a way to reduce dependency on benefits later in life. It was this preventative approach which lay behind the decision to group work and pensions within the same department. It should be clear that the purpose of the welfare reforms was to ensure that people were supported through the transitional stages of life.

b. These reforms offered an opportunity to introduce more flexibility into the system, allowing local circumstances to be taken into account. Such flexibility had until now only been available for limited-term pilots. As an integral part of the system, it could help to handle rapid social change, and should, consequently, be seen as an aspect of the social model which was being promoted within the EU. It would be important, however, not to make all aspects of benefit conditionality a matter for the discretion of front-line staff, who might be put under uncomfortable pressure to relax the rules for certain individuals. This would not only be inequitable, but would open the system to challenge.

The Committee:

- Took note, and agreed to proceed accordingly.

ITEM 2 – WELFARE REFORM – NEW AMBITIONS FOR WORKING AGE PEOPLE

The Committee had before it a paper (WR(06)4) by the Secretary of State for Work and Pensions.

The SECRETARY OF STATE FOR WORK AND PENSIONS introduced his paper, saying that he intended to take a holistic approach to welfare reform. This would include working with Department of Health and the Health and Safety Commission to tackle health problems at an early stage, when individuals moved onto statutory sick pay (SSP) or even earlier. It would also address the numbers who moved from Jobseeker's Allowance (JSA) onto health-related benefits. A gateway period would reduce entry onto Incapacity Benefit (IB), or its replacement. Careful thought would need to be given to the status of those in this gateway period, and the conditions which should be attached to receipt of benefit during it. These would need to be comparable to those in JSA if perverse incentives were not to be created. The presumption was that conditionality would be attached to benefit for all but those whose disabilities or health problems were most severe. This later category would include those currently exempted from the capability test because of the nature of their condition. The public were behind an approach based on work being the best welfare.

The following points were made in discussion:

c. The plan was to build on the work begun by the previous Secretary of State for Work and Pensions, and expand it to a vision of the welfare system in 15 or 20 years' time. Ultimately, the aim was to have one benefit for all those of working age. Their individual circumstances – illness, caring responsibilities and so on – would be addressed by premiums added to the basic benefit;

d. This was an ambitious aim, and there would be many interim steps to accomplish before it was reached. The first of these was to build on the approach which had been used in the Pathways to Work pilot. This in itself, however, would only reduce the numbers on IB by around 80-200,000. To achieve the desired 80% employment rate, the numbers on IB would need to drop by 1 million from the current total of around 2.7m

e. It was essential, in introducing a universal benefit, not to jeopardise the success of JSA, which was partly based on the uniform nature of the conditions that were placed on all its recipients. There was a risk that the effect would be diluted if different conditionality regimes were operated within the same benefit. This would be exacerbated if the variation was at the discretion of advisers. Certainly, advisers would need to be more highly skilled, and therefore more expensive.

f. This was not a reason to reject the ultimate aim of a universal benefit, however, but a warning to ensure the steps towards that ultimate aim were taken carefully. It was, after all, already possible to avoid the JSA conditionality regime by moving onto IB.

g. the task of reducing the numbers on IB was formidable, and a three strand approach would be adopted.

h. first, the flow on to the benefit would be reduced, by tackling, at their root, some of its major drivers. Some 40% of those on IB cited mental health problems, ranging from stress to serious illness, as the main barrier to a return to work. The aim here should be to improve provision for employers and individuals, so that mental health problems could be addressed before a recourse to IB became necessary. Employers who made psycho-therapies available to their workforce had experienced reductions in their sickness costs. Greater access to psycho-therapies for individuals would also answer the manifesto commitment. The cost-effectiveness of such an approach could be tested through demonstration projects which brought together employers, the voluntary sector and the Pathways to Work pilots. These could be set up relatively quickly. If the services were in place to help those with mental health problems, with the voluntary sector involved in their design, it should be possible to engage stakeholders in a positive debate about IB and mental health.

i. Another significant group flowing onto IB was lone parents whose children had left school, making the parents ineligible for lone parent benefit. Some 25% of lone parents in this position immediately switched to IB. As a first step in tackling the position of lone parents, it was proposed that benefit conditionality would be increased for those whose youngest child had entered secondary school. Allowance would be made for those parents with extra caring responsibilities.

j. The second strand was to distinguish, among those who qualified for a benefit due to illness or disability, between those who could move back into work in time, and those who could not. 85% of those who currently qualified for IB through the Personal capability Assessment could nonetheless do some kind of work. Making this distinction would, however, be complex and controversial.

k. The third strand was working with those who had been on IB for some time. This would be a challenge. Statistically, individuals who stayed on IB for a year were likely to remain on it for 8 years. Those who stayed on it for 2 years were likely to remain on it for life, or until they retired. A large percentage were over 50 and 400,000 people had been on IB since before the 1995 reforms. Nonetheless, many of these people said they wanted to work. A set of interventions would need to be designed to help them back into the workplace.

l. The Pathways to Work pilots had shown that intervention could be effective in getting people back to work, but the results had varied between pilot areas. It was clear that the most effective intervention was simply to raise with individuals, often for the first time, the possibility of a return to work.

m. the overall health regime within which the benefit operated was a major factor. Currently, GPs did not see their role in the handling of IB as part of their core business, and feared that challenging a patient's view of their fitness to work would destroy the doctor-patient relationship. This situation had to change.

n. There was potential benefits from working with the insurance industry, which had an interest because of compulsory employers' liability insurance

o. Employers similarly had a large part to play in keeping people with health problems in work. To secure their full co-operation, however, we would need to assuage their fears about SSP

Summing up the discussion, the PRIME MINISTER said that reforms to benefits for one section of the population should be developed as part of an overall vision which covered all life stages. The overall aim of the reforms must be to re-configure the welfare budget, ensuring that benefits went to those who needed them, at the level which was necessary. While the tendency in the past had been to expend great effort reducing waste at the margins, what was needed was a fundamental overhaul. Much had been achieved, since the 1998 Green Paper, in getting those people on Jobseeker's Allowance back to work. It was necessary now to tackle the fact that numbers on IB rose by 300,000 a year, as well as addressing the pensions situation. The meeting had agreed that conditionality should be extended for lone parents whose youngest child had reached secondary school age. The next meeting had to consider further concrete proposals, though these should be set in the context of an overall strategy for welfare.

The Committee:

- Took note, and agreed to proceed accordingly.

ITEM 3 – HOUSING BENEFIT REFORM – LOCAL HOUSING ALLOWANCE

The Committee had before it a paper (WR(05)5) by the Secretary of State for Work and Pensions.

The SECRETARY OF STATE FOR WORK AND PENSIONS introduced his paper, and said that the pilots of standard rate payments in the private sector had shown the reforms to have the desired effect on the rental market, but had also indicated some need to modify the design. The evidence showed that no-one had lost financially as a result of the pilots, and 70% of people had gained. However, a small minority had made excessive gains, some as much as £200 a week, mostly by increasing the number of people living in the property. This would need to be addressed before the Housing Benefit (HB) bill was introduced in November.

The following points were made in discussion:

p. The proposals for national roll-out did not meet the requirement for a cost-neutral scheme which Treasury had set as a condition for the Introduction of the HB bill. On current projections, it would be ten years before the model began to deliver savings. DWP were considering ways in which to achieve cost-neutrality within the first three years, but this would have to be done in such a way as to protect those whose benefit levels would fall. The Treasury would not withdraw its insistence on cost-neutrality, but recognised that the pilots had raised expectations of a national roll-out.

q. Applying the same model to those on HB in social housing would be complex, especially in London. It would be necessary to pilot the approach first.

The [illegible] MINISTER summed up the discussion, saying that the pilots had shown that [illegible] rate model achieved the policy objectives, and the Treasury and DWP [illegible] resolve the cost issues by the next meeting of the Committee in the [illegible]mn.

The Committee:

- Took note, and agreed to proceed accordingly.

ITEM 4 – PENSIONS HANDLING STRATEGY

The Committee had before it a paper (WR(05)6) by the Secretary of State for Work and Pensions, of which it took note.

Cabinet Office
21 July 2005

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WR(05)3rd Meeting **COPY NO**

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CABINET

MINISTERIAL COMMITTEE ON WELFARE REFORM

CANCELLATION NOTICE

The Meeting on **WEDNESDAY 12 OCTOBER 2005 at 3.30pm (90 minutes)** in the Cabinet Room, Downing Street is **CANCELLED**.

SIGNED **SIR GUS O'DONNELL**
MR P BRITTON
MR R FELLGETT
MS S MCLAREN

Cabinet Office
11 October 2005
[Contact Telephone No. for queries: 020 7276 0091]

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WR(05)4th Meeting **COPY NO** 2

CABINET

MINISTERIAL COMMITTEE ON WELFARE REFORM

CANCELLATION NOTICE

The Meeting on **TUESDAY 18 OCTOBER 2005 at 4.15pm (75 minutes)** in the Cabinet Room, Downing Street **is CANCELLED**.

SIGNED **SIR GUS O'DONNELL**
MR P BRITTON
MR R FELLGETT
MS S MCLAREN

Cabinet Office
17 October 2005
[Contact Telephone No. for queries: 020 7276 0091]

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WR(05)2
21 June 2005

COPY NO 2

CABINET

MINISTERIAL COMMITTEE ON WELFARE REFORM

COMPOSITION AND TERMS OF REFERENCE

Note by the Secretary of the Cabinet

By direction of the Prime Minister the Composition of the Committee has been revised and is now as follows:

COMPOSITION

Prime Minister (Chair)
Chancellor of the Exchequer (Deputy Chair)
Deputy Prime Minister and First Secretary of State
Secretary of State for Work and Pensions
Secretary of State for Health
Minister without Portfolio
Secretary of State for Trade and Industry
Chief Secretary to the Treasury
Minister for Communities and Local Government
Minister for Work
Minister for Pensions

TERMS OF REFERENCE

"To develop policies on welfare reform and to monitor progress."

SECRETARIAT

The Secretaries are Sir Andrew Turnbull KCB CVO, Mr P Britton, Mr R Fellgett and Ms S McLaren, Cabinet Office.

SIGNED SIR ANDREW TURNBULL

Cabinet Office
21 June 2005

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WR(05)3 COPY NO 2
15 July 2006

CABINET

MINISTERIAL COMMITTEE ON WELFARE REFORM

THE PRINCIPLES OF WELFARE REFORM

Paper by the Secretary of State for Work and Pensions

Summary

The Committee is asked note the values and principles which shape our vision of the future welfare state.

Background

Our values of equality, opportunity, fairness and social justice underpin the principles. They are designed to provide both avenues out of poverty and wider economic prosperity, for individuals through their lifetime and society as a whole. By combining individual responsibility with wider duties, our principles link the role of individuals in providing for their own welfare and that of their families with the obligations we have to each other as a society.

We have already moved away from a passive social security system which can encourage welfare dependency, and results in a high economic and social price to be paid for failure. Building on recent reforms, we will shape welfare actively to encourage self reliance, to promote work as the best route out of welfare and to balance rights with responsibilities.

The next stage of welfare reform is to help people *across their lifecycle* not just back into work but to progress *in* work and build assets for the future.

Guiding principles

The guiding principles of our reforms to welfare are to:

(i) help people to help themselves by offering a ladder to self-reliance and self-determination;

(ii) state is active, liberating and enabling;

(iii) balance rights and while recognising the need for support and care;

(iv) recognise our mutual interdependence and responsibilities to each other;

(v) see work as the best route out of welfare;

(vi) address the route causes of poverty;

(vii) promote understanding and enable people to make informed choices; and

(viii) contribute to a stable and growing economy through investment in people's potential.

By developing and building on the principles laid out in *A New Contract for Welfare* in 1998, these principles will underpin our future welfare reform agenda.

Core Principles

(i) Help people to help themselves by offering a ladder to self-reliance and self-determination

The core principle of the welfare state will be to liberate people to make the most of their lives. The welfare state should offer insurance against times of difficulty but should no longer be seen as only a safety net into which people fall and are expected to remain, but must provide a means of escaping from poverty and dependency.

(ii) Ensure the role of the state is active, liberating and enabling

The welfare state should work with individuals and families and with partners in the public, private and voluntary sectors to lift people permanently out of dependency, and to support people through different transitions across the lifecycle. This means taking a broad approach to welfare to promote quality of life - helping people into work, with caring responsibilities and to build assets to enhance independence, security and opportunity.

(iii) Balance rights and responsibilities, while recognising the need for support and care

A new relationship between the individual, the family, the wider community and the state is needed. – a 'something for something contract'. The provision of help or guidance will be in return for a clear commitment to self-help and an endeavour to accept responsibility. The right to financial or other support should go hand in hand with an obligation to take steps to avoid long-term dependency and to contribute positively to society. We must continue to recognise that for some people the state will need to continue to offer ongoing support and that their aspirations and opportunities should similarly be encouraged. People requiring ongoing support must not be written off by the welfare state.

(iv) Recognise our mutual interdependence and responsibilities to each other

Society is interdependent and people should pay according to their means to support those according to their needs. However, this should be married with a renewed emphasis that contributing to the welfare state will create entitlements to draw down on such support. Society will flourish when everyone, who is able to, makes a contribution to their own well-being and the well-being of others. Welfare reform must work with the grain of this ambition. People can contribute in many different ways. A renewed welfare state must produce fair outcomes for women and carers.

(v) See work as the best route out of welfare

For people of working age work is overwhelmingly the best route to independence. It also lays the foundation for security in retirement. The National Minimum Wage and working tax credits have helped to make sure that work pays. We want to make sure people have access to lifelong learning to help them progress and create new opportunities.

(vi) Address the route causes of poverty

It is not sufficient for the welfare state to ameliorate the condition of dependence on others, but must focus on early intervention and seek the prevention of poverty, disadvantage and worklessness in the first place. We must ensure children grow up free from poverty, so they are less likely to become out of work adults. Adults should be supported into work whenever possible, developing skills and building assets for their retirement.

(vii) Promote understanding and enable people to make informed choices

Welfare reform must lead to a clear and enabling framework [illegible] people can understand, thereby allowing people to make informed and [illegible] choices and to understand the consequences of their decisions. It must [illegible] clamp down on abuse.

(viii) Contribute to a stable and growing economy through investment in people's potential.

A new welfare state must be concerned with keeping a system affordable and with underpinning economic stability, through promoting work as an alternative to welfare.

By helping people to fulfil their potential and rise out of a cycle of poverty, it will generate greater productivity and reduce the long term burdens of the state.

Our Reform Objectives

These principles lead naturally to the reinforcement of the objectives laid out in the Departmental Five Year Strategy:

(i) ensure the best start for all children and end child poverty by 2020;

(ii) promote work as the best form of welfare for people of working age and remove barriers to work (thereby move towards the aim of 80 per cent of the working population in employment), while protecting the position of those in greatest need;

(iii) combat poverty and promote security and independence in retirement for today's and tomorrow's pensioners;

(iv) improve rights and opportunities for people with disabilities in a fair and inclusive society; and

(v) ensure customers receive a high-quality customer service, including high levels of accuracy and the avoidance of fraud.

The pursuit of these objectives will require the active participation not only of DWP officials and their customers, but also close cooperation with employers, those in HM Revenue & Customs administering the tax credits system, those providing education and skills development, those providing occupational health services, those providing healthcare, the voluntary sector, and many other stakeholders across the economy.

DB
15 JULY 2005

WR(05)4 COPY NO 2
15 July 2006

CABINET

MINISTERIAL COMMITTEE ON WELFARE REFORM

WELFARE REFORM – NEW AMBITIONS FOR WORKING AGE PEOPLE

Paper by the Secretary of State for Work and Pensions

Summary

The Committee is asked to:

(i) endorse the long term vision for welfare for people of working age outlined in this paper; and

(ii) note the timetable for the Welfare Reform Green Paper.

Our starting point

1. In 1997 we inherited a welfare system that trapped people into inactivity and did far too little to assist individuals to make the most of their abilities and opportunities. Since then we have done much to recover from those years of neglect and passivity. Building on recent reforms and my principles for reform, we will shape welfare actively to encourage self reliance, promote work as the best route out of welfare and to balance rights with responsibilities, whilst safeguarding those who can't work.

My ambition for welfare

2. I am suggesting a radical long term vision for welfare for people of working age that has four components:

- a more streamlined benefit structure covering everyone be they unemployed, a lone parent or a person with a health condition or disability to compensate for loss of income;
- additional financial support to reflect the extra costs faced by families (through tax credits) or the additional costs arising out of illness and disability and to provide for housing costs;
- personalised services with personal advisers responding more flexibly to individual needs in helping claimants back to work, with provision of tailored employment advice, access to high quality training and support in work from flexible working to schemes like Access to Work; and
- a flexible system of conditionality, ranging from work-search and work-focused training through to condition management and action planning.

What we need to do

3. We are a long way from that vision. I intend to set in train a comprehensive programme of change to build a system relevant to the needs of people today and, above all, enabling them to fulfil their potential. All our reforms will be guided by the principles which are the subject of a separate paper. On housing benefit, continuing with the success of our reforms to date, I intend to extend the Local Housing Allowance because I feel that the resulting transparency and added responsibility are important in easing claimants' move into work and out of dependency. This is the subject of separate paper. Beyond that, I propose to legislate in the following key areas.

Lone parents

4. I intend to build on our success with bringing down lone parent inactivity and unemployment. We have increased the lone parent employment rate by more than 10 percentage points to 55.8% - the highest on record. But we know we must do more if we are to get this up to 70%.

- I am suggesting we move towards greater conditionality for lone parents to secure a step change in lone parent participation in work;
- we have already suggested that this would be linked to an extra participation premium of £20 per week which will protect the basic benefit of those who do not participate; and
- we would start with lone parents whose youngest child had entered secondary school. We could over time extend the conditionality down the age range. In the interim, all lone parents would enjoy the opportunity to participate if they want the extra money.

Incapacity Benefit reform

5. We have already made progress in reversing the trends prior to 1997 which saw the equivalent of 2,000 extra people added to the Incapacity Benefit caseload every week. By 1997 there were 2.5 million claimants. New claim volumes have fallen by 30% since 1997 and recently we saw a small but significant fall in the number of people receiving Incapacity Benefit (there are 29,000 fewer claimants now than a year ago). Our Pathways to Work pilots are a striking success. But we need to do more. To balance rights and responsibilities individuals – other than the small number of those for whom this would be entirely inappropriate - will be required to engage actively in measures to improve their chances of employment.

6. Our proposals for reform will:

- provide support to individuals before they reach a stage where a claim for Incapacity Benefit is necessary – providing support to employers and medical practitioners to manage absence from the workplace and intervening earlier for those receiving Statutory Sick Pay and other benefits;

- strengthen our links with health and social services to provide synergy in our support to the individual – I have agreed a joint programme of work with the Secretary of State, Health to achieve this;
- build upon the Pathways to Work pilots to ensure that the menu of assistance available to individuals is comprehensive and sufficiently responsive to meet their needs, and ensures they are better off in work;
- reform the benefit rules so that they support the new conditionality regime.

7. I am also looking at proposals for reform of Statutory Sick Pay and, together with the Secretary of State, Health, a major expansion of availability of occupational health and rehabilitation.

Timing

8. I plan to publish a welfare reform green paper consulting in more detail on these proposals in the autumn, and introduce a Bill next year covering them and some other minor changes which I shall be seeking DA clearance for shortly. I will discuss the funding implications with the Chancellor of the Exchequer – I would expect to roll out the new regime gradually in order to spread costs, but I am confident that the payback both to the exchequer and to the economy – to say nothing of society more generally – will be very consider

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15 JULY 2005

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WR(05)5
15 July 2006

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CABINET

MINISTERIAL COMMITTEE ON WELFARE REFORM

HOUSING BENEFIT REFORM – LOCAL HOUSING ALLOWANCE

Paper by the Secretary of State for Work and Pensions

Summary

The Committee is asked to:

- **(i)** **endorse the approach to Local Housing Allowance outlined in this paper; and**
- **(ii)** **note the timetable for reform.**

Key objectives of reform

1. In October 2002, the Government announced a programme of reform to Housing Benefit (HB), with the objectives of tackling poor administration, increasing transparency, removing barriers to work and promoting choice and responsibility. The reform strategy recognises that the opportunity of a decent home is central to tackling poverty, promoting good health and building strong communities.

2. The reform programme is well underway and is something of a success story for the Government. Local authorities have improved the time taken to process new claims to Housing Benefit by around a fortnight since 2001/02.

Redundant processes have been removed and new targeted interventions introduced to tackle fraud and error. Where possible, we have aligned HB rules to cater for the introduction of tax credits and Pension Credit.

Local Housing Allowance

3. The central element of the reform programme is the introduction of the Local Housing Allowance (LHA). The LHA provides tenants with a flat-rate allowance based on the size of the household and their location. The areas and allowance rates are set by independent rent officers, taking account of local housing and rental markets. For example, a couple with one child living in Leeds might be entitled to the three-room rate of £101 per week. If a tenant's LHA payment is higher than the rent, they are able to keep the excess. If it is lower, the tenant must make up the difference from their own income. As under the current HB rules, entitlement is subject to an income assessment so the LHA sets the maximum entitlement. Annex A provides further details on the LHA and current HB rules.

4. In the majority of cases, payment is made to the tenant rather than the landlord. However, safeguards ensure that tenants who cannot cope with this responsibility can have their LHA paid direct to the landlord.

5. The main objectives of the LHA are to promote:

- *Fairness* – Tenants living in similar circumstances in the same area receive the same amount of benefit.

- *Simplification* – Clearer and simpler rules improve local authority processing times.

- *Transparency* – LHA rates for different property sizes in an area are published monthly so tenants will know in advance how much rent their benefit could cover. This is not possible under the current scheme.

- *Choice* - the UK is unusual as most similar countries pay a housing allowance which gives people a financial interest in the rent charged by their landlord. The LHA should encourage opportunities for benefit claimants to make the same trade-offs between location, size, quality and cost of accommodation as anyone else. Claimants will also have a financial incentive to negotiate more appropriate rents.

- *Increased work incentives* – Greater certainty about what in-work benefit they could receive is expected to help claimants bridge the transition into work. Streamlined administration will reduce delays that can deter people from taking the risk of starting work and losing their benefit entitlement.

- *Personal responsibility* – Paying LHA to the tenant is an important step in tackling financial exclusion. Promoting access to bank accounts and encouraging tenants to budget effectively can ease the move into work and out of dependency.

Progress in implementing the Local Housing Allowance

6. The LHA was introduced for private sector tenants in nine pathfinder local authorities between November 2003 and February 2004 and remains subject to a rigorous and independent evaluation. While the final evaluation will not be complete until late in 2006, interim feedback is largely positive. Implementation has gone very smoothly in all Pathfinders and most areas report that processing times have fallen as a result of the LHA and other HB reforms. Almost 90% of payments are being made to tenants, compared to approximately 40% prior to the LHA. Despite fears to the contrary, landlords have neither evicted tenants nor withdrawn from the market in large numbers

and there are few examples of cases where arrears can be shown to result from LHA. The LHA appears to have had minimal effect on rent levels, but it is too early to draw any firm conclusions.

7. A second group of nine authorities roll out the LHA between April and July 2005 to gather good practice on implementation arrangements in preparation for roll-out across the private rented sector.[1]

Designing a scheme for private sector roll-out

8. The LHA model for national roll-out will need to take account of lessons learnt from the pathfinder phase. Re-design of the model will also be necessary to fulfil the agreement reached at Cabinet to design a scheme that is broadly cost neutral which would avoid disincentives to employment.

9. National implementation of a cost neutral package will require very careful handling. There is always a trade off between cost, the number of losers and the scale of losses. Also, the more removed our national LHA scheme becomes from the pathfinder model, the greater the risk of criticism that the national LHA has not been properly tested. It is also important to bear in mind that under the current rules, over half of tenants in the private rented sector already face a shortfall between their maximum Housing Benefit and their rent. We need to avoid undermining our poverty agenda and putting further pressure on social housing or high-cost temporary accommodation in areas of high demand. A key issue with the stabilisation of those prices is to try and hold rents in the private sector to an acceptable level. It is also important that we complement other measures being taken by ODPM to address homelessness, improve housing quality and to tackle rogue landlords.

[1] Following SR2004, DWP has a PSA target to "increase the number of cases in the private sector in receipt of LHA to 740,000 by March 2008" (in effect, this is the whole expected national LHA caseload in the private sector).

10. The four most significant policy changes under consideration are:

(i) Handling the excesses. Tenants whose LHA exceeds their actual rent are entitled to keep the 'excess'. This provides an incentive for tenants to seek or negotiate lower rents. However, emerging evidence from the pathfinder phase indicates that some tenants are benefiting from significantly large excesses. This could have an adverse impact on work incentives and is seen as unfair by local authorities operating the scheme. It also has the perverse effect of landlords knowing that so much cash is being made available to cover higher rents than those being charged.

We could therefore consider applying a cap on claimants' excesses, for example, so that no claimant could receive an excess of more than £10 or 5% of the LHA over their rent.

This would allow a substantial reduction in cost, since around 70% of the additional AME expenditure estimated for rollout reflects the cost of paying claimants an excess.[2] It could also remove any disincentives to work caused by high excesses. But it would still give tenants a financial interest in their rent and could be justified as a direct response to evidence gathered from the pathfinder stage.

A cap on excesses is attractive but we need to bear in mind the risks. It damages the administrative simplification and would be a significant departure from the LHA model currently under evaluation. It could also reduce claimants' incentives to negotiate lower rents as their opportunities to gain from doing so are more limited.

(ii) Setting the rates. In the pathfinder areas, LHA rates represent the mid-point between the highest and lowest market rents for a particular sized property in a given area. This reflects the 'Local Reference Rent' calculation used by rent

[2] This estimate is based on a model which sets the LHA at the median of rents and makes no other adjustments.

officers to restrict a claimant's benefit under the existing HB rules (see annex A). For national roll-out, we recommend setting LHA levels at the median of market rents, rather than the mid-point. This retains the principle that rates should be set around the middle of rent levels, but would produce a more stable LHA that is less susceptible to fluctuations at the top end of the market. This should enable an initial reduction in costs and the increased stability is expected to generate longer term savings.

Theoretically, we could set rates at a point lower than the median. But this would be extremely difficult to defend: it would increase the number of losers and extent of losses; there would be no guarantee that suitable accommodation would be available to all tenants in such a restricted part of the market; and a seemingly arbitrary method of calculating the LHA rates would increase the risk of legal challenge.

(iii)Size criteria. A claimant's LHA rate is dependent on the composition of their household and the size criteria applied (see annex A) broadly reflect those used to restrict benefit under the existing HB rules. Designing the national LHA scheme provides an opportunity to revise the criteria to ensure they fully reflect the policy intention, ensure practical simplicity and curb unnecessary costs. A review of the criteria will need to balance careful consideration of the accommodation needs of the most vulnerable members of society with the need for simplification and easy application.

(iv) Transitional protection. Rolling out the LHA without any transitional protection for existing claimants would be exceptionally difficult. Many existing claimants will be tied into rental agreements for at least six months, preventing them from finding cheaper accommodation if the LHA did not meet a sufficient portion of their rent. Leaving tenants unable to meet the financial commitments they had made in good faith would be highly controversial, would counteract our efforts to reduce poverty and would present a high risk of successful legal challenge.

Under the pathfinder scheme, existing claimants had their HB level protected in cash terms until they would either benefit from the LHA scheme, or they moved house or ended their claim. While this ensures no losers at the point of change, such a high level of protection could be expensive. At November 2004, only 3% of claimants benefited from transitional protection. However, this reflects the relative generosity of the scheme in comparison to the existing HB rules. We should therefore consider ways in which more limited transitional protection could apply for less vulnerable groups.

11. Annex B illustrates two possible LHA models based on variations in the factors described above.

Next steps

12. The next steps towards national roll-out will be agreement on funding methodology through the PBR/Budget process and finalising a Bill ready for introduction. Officials are working on the cost and policy implications of further cost-neutral proposals for consideration during the PBR discussions.

13. Both the Domestic Affairs and Legislative Programme Committees agreed in December 2004 that a Bill should be introduced in this first parliamentary session to provide the powers required to deliver national rollout of the LHA for tenants in the private sector. Legislation was announced in the Queen's Speech in May.

14. Decisions will need to be taken on the central design features of the LHA in advance of PBR and the Bill's expected introduction in late November. We therefore require the final policy to be agreed by the end of October and signed off by this Committee in the autumn. The Bill will also allow pilots of the LHA in the social sector (see annex C), however significant further work will be needed to address various policy issues before the scheme can be expanded.

15. The Committee is asked to comment on the broad policy parameters within which the final LHA package should be designed and the illustrative models provided in the paper.

DB
15 JULY 2005

ANNEX A

HOW THE CURRENT HOUSING BENEFIT AND NEW LOCAL HOUSING ALLOWANCE RULES WORK

Existing HB rules

- Housing Benefit provides financial help with the payment of rent and is administered by local authorities. The current rules for assessing how much rent can be met by HB (a claimant's 'eligible rent') in the private sector can be summarised as follows:

- Nearly all individual private rented sector claims have to be referred to an independent rent officer by the local authority. Rent officers are experts in valuation and on the local housing market. They are currently either part of The Rent Service in England (an independent Agency within DWP), or in Scotland and Wales they work respectively for the Executive/Assembly Departments responsible for housing matters.

- Rent officers assess the rent for an individual property by assessing the market evidence collected on the advertised and achieved rents on the open private sector market in that area.

- Claimants have their eligible rent restricted if the rent officer considers the property to be too expensive (compared with other similar properties in the area, or other properties that tenants in work could reasonably be expected to afford). The eligible rent can also be reduced if the property is considered too large for the claimant's needs (based on the size criteria described below). Finally, since October 1997, claimants over 25 can have their eligible rent restricted to the level of the Local Reference Rent. This is set by working out the mid-point the highest and lowest rents for any given property size in a particular area. Unless they fall into certain vulnerable groups, single claimants under 25 have their eligible rent restricted to a rate of HB based on occupying shared accommodation (e.g. a house-share or bedsit).

- Rent officers also determine what areas or 'localities' the Local Reference Rent and Single Room Rent cover. These are fairly broad areas based on housing markets, rather than any administrative boundaries. For example, a locality may cover a significant rural area, a town, a whole city, or one or more London boroughs.

- When working out the various rent restrictions, the rent officer has to apply the following size criteria. This takes a broad brush approach to the needs of a household, based on the number of occupiers.

Size Criteria

In making their determinations, the rent officer looks at the market evidence for the size of household based on one bedroom for:

(i) every adult couple,
(ii) any other adult (aged 16 or over),
(iii) any two children of the same sex,
(iv) any two children under 10, regardless of sex,
(v) or for any other child.

1-3 occupiers are entitled to 1 living room.
4-6 occupiers are entitled to 2 living rooms.
7 or more occupiers are entitled to 3 living rooms.
(Kitchens and bathrooms are ignored)

How LHA is set in pathfinder local authorities

- In pathfinder areas, the Local Housing Allowance rates are determined by rent officers in much the same way as the existing Local Reference Rent. The LHA rate for a given property size in an area is set as the midpoint of the high and low rental values.
- LHA rates are set for each property size in an area and are published widely within the local authority. The rates are updated each month to reflect any changes, up or down, within the local private rental market.
- Single tenants under age 25 still get a rate based on shared accommodation, as do any single people over 25 who choose to live in shared accommodation (but the definition has been simplified).
- Using the size criteria described above, the total number of rooms (i.e. bedrooms plus living rooms) will determine the LHA rate that a claimant will qualify for. For example, a married couple with one child would be entitled to the rate for a 3-room property (i.e. two bedrooms and one living room).

ANNEX B

POSSIBLE LHA MODELS FOR PRIVATE SECTOR ROLL-OUT

The models below illustrate a possible cost neutral LHA scheme and a scheme that requires initial AME spending but with the potential for longer term savings.

Model One: An example of a cost neutral scheme

- LHA rates would be set at the 30th percentile, rather than the median of market rents
- Transitional protection would not cover the first £5 of claimants' losses
- Excesses capped at 5% of the appropriate LHA rate
- The size criteria would be restricted (e.g. the entitlement to a 3rd living room for 7-person households would be removed)
- Roll-out would be staggered over three financial years – most likely 2007/8, 2008/9, 2009/10

The effects of this model would be:

- Broadly cost neutral over the three year roll-out with year on year savings thereafter
- 40% of claimants would gain (by around £11 per week) compared with the current HB rules
- 45% of claimants would face an immediate loss of £5 per week and their additional losses (£16 per week on average) would be protected until a break in their claim or relevant change in circumstances
- 15% of claimants would lose £3 per week on average from day one

Model Two: An example of a reduced cost scheme

- LHA rates set at the median point of market rents
- Transitional protection ensures no losers at the point of change, but claimants lose their protection more quickly if household composition changes
- Excesses capped at £20 per week
- Size criteria based on calculating entitlement to bedrooms, rather than bedrooms plus living rooms.
- Roll-out staggered over three financial years – most likely 2007/8, 2008/9, 2009/10

The effects of this model would be:

- AME costs of £120m, £220m and £280m in 07/08, 08/09, 09/10 respectively, with potential estimated savings of around £220m per year from 2017/18
- 60% of claimants would gain by around £17 per week compared with the current HB rules
- 40% of claimants would have an average of £19 per week protected until a break in their claim or relevant change in circumstances.

ANNEX C

DESIGNING A LOCAL HOUSING ALLOWANCE SCHEME FOR THE SOCIAL SECTOR

The 2003 Pre-Budget Report and 2004 Budget confirmed the Government's commitment to pilot a flat rate LHA in the social rented sector as soon as practicable. The Housing Benefit Bill is expected to include a power to enable these pilots to be established.

In designing the social sector pilots, our intention will be to mirror as closely as possible the private sector LHA scheme, while taking into account relevant differences between the two sectors. Pilot areas would be selected where rent levels reflect the size and quality of accommodation and where tenants already have an element of choice over their housing.

Given the high proportion of vulnerable claimants and the different administrative procedures in the social sector, there is a clear need to proceed cautiously in designing the scheme.

Provisional milestones towards introducing LHA in the social sector:

- *November 05 - July 06*: Passage of HB Bill through Parliament
- *September 06 - April 07*: Agreement on detailed secondary legislation, selection of pilot areas and commencement of evaluation
- *October 2007*: Earliest start date for pilots
- *October 2010*: Initial piloting phase complete and decisions taken on feasibility of national roll-out / further piloting

ANNEX D

HB FACTS AND FIGURES

Housing Benefit - Programme Expenditure

Outturn stands at **£12.4 billion** in 2003/04.

Of this we estimate that:

- 36% (£4.5 billion) is spent on the elderly.
- 64% (£7.9 billion) is spent on working age claimants.

We also estimate that:

- £3.1 billion is spent on private sector tenants.
- £9.3 billion is spent on social sector tenants.

Housing Benefit - Recipients

At November 2004, there were **3.94 million** family units in receipt of Housing Benefit in Great Britain, representing 1[illegible].3% of total households.

Almost 40% are classed as elderly[3] and just over 60% are classed as working age.[4]

Of recipients aged under 60, (at May 200[illegible]):

- 37% are lone parents.
- 38% have a disability or long term illness.
- 11% are unemployed.
- 14% are 'Others' - mostly in work, carers, widows, or those with a short term illness.

Housing Benefit Receipt and Housing Tenure

At November 2004, **0.78 million** (20%) HB recipients were tenants in private rental sector accommodation. The remaining **3.16 million** (80%) are tenants in the social sector.

Average Housing Benefit Amounts Received

Average weekly HB (in November 2004) is **£60.71.**

The amount people receive can vary enormously according to individual characteristics, tenure, and geographical location.

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[3] Recipient is aged 60 or over, at least one for a couple.

[4] Aged under 60, both people in a couple.

Cost of Local Authority administration

The total cost to local authorities for administration of Housing Benefit and Council Tax Benefit in 2003/04[5]:

- **Gross £876 million**
- **Net £765 million**

[5] Note: Reliable figures are not available for HB only administration costs, and the definition of 'net' administration costs differs across local authorities

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15 July 2006

CABINET

MINISTERIAL COMMITTEE ON WELFARE REFORM

PENSIONS HANDLING STRATEGY

Paper by the Secretary of State for Work and Pensions

Summary

The Committee is asked:

(i) note the background and timetable for further reform; and

(ii) agree the lines to take at Annex A.

Background

1. The Government has made substantial progress in tackling pension reform and pensioner poverty. Since 1997, the minimum income entitlement for pensioners has risen from £69 per week to £109. Pensioner households are now no less likely to be in poverty than non-pensioners, and the Pension Credit has been introduced to reward those who saved for their retirement. The Pension Service has been introduced and now reaches out to customers in retirement, working in partnership with voluntary organisations, local authorities and other government departments to provide a more joined-up service.

2. A series of reforms has also given the foundation for all to plan and save for their retirement. Rights to the new State Second Pension (reforming SERPS) began to accrue from 2002. This credits in low earners and those with caring responsibilities as if they had earnings of £12,000 per annum. And most

recently, the new Pensions Act 2004 has begun to improve security and confidence for occupational scheme members by creating the Pension Protection Fund and Financial Assistance Scheme. The new Pensions Regulator will also assist in protecting members' benefits.

Progress on Government Strategy for reform

3. In February of this year, the Government published its "Principles for Reform: The national pensions debate", setting out the Government's progress to date, and six key principles for pension reform:

(i) The pensions system must tackle poverty effectively
(ii) The opportunity to build an adequate retirement income should be open to all
(iii) Affordability and economic stability must be maintained
(iv) The pensions system should produce fair outcomes for women and carers
(v) Reform should seek to establish a system that people understand; and
(vi) Reform should be based around as broad a consensus as possible.

4. In March 2005 the Government published the report "Opportunity Age: Meeting the challenges of ageing in the 21st century". This report set out a framework for the wider strategy to manage the large demographic change that the nation is experiencing (the ratio of people over 65 to those aged 20-64 will rise from around 1 in 4 today to around 1 in 2 by 2051) and set out proposals in three key areas which are priorities for action:

   a. to achieve higher employment rates overall and greater flexibility for the over-50s in continuing careers, managing any health conditions and combining work with family and other commitments

b. to enable older people to play a full and active role in society, with an adequate income and decent housing; and

c. to allow us all to keep independence and control over our lives as we grow older, even if we are constrained by the health problems with can occur in old age.

The Pensions Commission

5. The Pensions Commission was appointed in December 2002, with the remit of keeping under review the adequacy of private pension saving in the UK, and advising on appropriate policy changes, including on whether there is a need to "move beyond the voluntary approach".

6. The Chairman of the Pensions Commission is Adair Turner (also chair of the UK Low Pay Commission). Jeannie Drake, President of the Trades Union Congress and John Hills, Professor of Social Policy and Director of the ESRC Research Centre for Analysis of Social Exclusion at the London School of Economics are the other members.

7. The Commission published its first report in October 2004: "Pensions: Challenges and Choices – The First Report of the Pensions Commission". This report set out extensive and thorough analysis of the UK pensions and retirement savings system. It described in detail the present situation, the trends in place, and the challenges to be met. It did not make specific recommendations on policy, however it did highlight that there were four main routes available for retirement incomes in the future:

   a. Pensioners will become poorer relative to the rest of society;
   b. Taxes devoted to pensions to rise
   c. Savings rate to rise; or
   d. Average retirement ages must rise.

8. The Commission expressed the view that the first of these seemed very unattractive, and that some mix of the other three alternatives provided the most likely route for reform.

9. The Commission is holding a seminar on 21st June with a selection of key players in the pensions debate. The Secretary of State will be making some relatively brief opening remarks at the event. Opposition spokesmen have also been invited to contribute. Around 60 individuals from key lobby groups and representative organisations have been invited to attend. There is likely to be a small media presence, on a Chatham House basis for all participants other than Adair and politicians opening remarks.

10. The seminar is intended to help establish a baseline of agreement about the language, starting point and trends, and to allow discussion of a number of key issues currently under debate, including:
    a. The present system and latest trends, and
    b. Consideration of whether a UK pension policy should be concerned with providing an earnings-related income in retirement.

11. The Commission may float a number of reform ideas as part of the discussion, but they say they do not plan to focus on one 'big idea' on this occasion. This is very much in line with the Government's desire to build consensus on pension reform.

12. The Government will be supportive of this event, without in any way impugning the independent status of the Commission and their work. Attending lobby organisations are also being urged to be as cooperative and positive about the event as possible.

13. Common lines to take on the work of the Pensions Commission and likely pension reform were developed around the time of the election, and are attached at Annex A.

Timeline for reform, process for policy development and next steps

14. As noted above, the Pensions Commission is holding a seminar on reform on 21st June which DWP Ministers will attend.

15. As part of a wider strategy of engaging with the public on pension reform issues, The Secretary of State will also be holding two "National Pensions Debate" consensus-building events in advance of the 21st. Similar events with will take place up to, and possibly beyond, the publication of the Pensions Commission's second report.

16. The Pensions Commission's second report is due to be published in the autumn of this year – probably in November. It is important that the Government consistently maintains the line that firm conclusions on the way forward must await due consideration of the findings of the Commission's final report.

17. It is likely that the next Pensions Commission Report will be followed by a Green paper on the next stages of pension reform early in 2006 with perhaps draft legislation to follow in late 2006/7. The possibility of a draft Pensions Bill was flagged in the public briefing released at the time of the Queen's speech, although noted as subject to the outcome of the Pensions Commission review.

Conclusion

18. The Committee is invited to:

- note the background and timetable for further reform; and
- agree the lines to take at Annex A.

DB

15 JULY 05

ANNEX A

LINES TO TAKE

1. Pension reform and work of the Pensions Commission

- We set up the Pensions Commission to keep under review the regime for UK private pensions and long-term savings, and to make recommendations to the Secretary of State for Work and Pensions on whether there is a case for moving beyond the current voluntarist approach.
- Prior to the Pensions Commission reporting in the autumn, we are stimulating a National Pensions Debate across the country, to focus attention, to provide information, and to help educate people about the issues we and they face. This will help create understanding and ownership of both the challenges and the solutions.
- We are clear about the goals of a reformed system: it must tackle poverty, provide everyone with the opportunity to build an adequate retirement income, and be affordable, fair and simple to understand.

2. Timing of likely pensions reform

There are a range of recommendations the Commission could make and each would have its own timescale for implementation as part of an overall package of pensions reform. But a wholesale shift to our pensions system, such as increasing the level of compulsion in the system, would require a national consensus and it would be essential to create that before making any wholesale change.

Reforms in pensions take time to feed through so any significant change like increasing compulsion would only take effect after the next general election and following a period of consultation on the details.

Page 68 of the 2005 manifesto; "Britain forward, not back"

"1997: 2.8 million pensioners in poverty, the poorest living on £69 per week.

2005: Minimum income for pensioners of £109 per week

2010: A long-term settlement for pensions"