House of Commons

Work and Pensions Committee

The cost of living: Government Response to the Committee's Second Report of Session 2022–23

Third Special Report of Session 2022–23

Ordered by the House of Commons to be printed 7 September 2022

HC 671
Published on 8 September 2022
by authority of the House of Commons

Work and Pensions Committee

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

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The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the publications page of the Committee's website and in print by Order of the House.

Committee staff

The current staff of the Committee are Henry Ayi-Hyde (Committee Operations Officer), Oliver Florence (Senior Media and Communications Officer), Chloe Freeman (Second Clerk), Ed Hamill (Committee Operations Manager), Zoe Hays (Committee Specialist), Elizabeth Hunt (Supervisory Clerk), Dr Libby McEnhill (Senior Committee Specialist), Jessica Mulley (Clerk), Billy Roberts (Media and Communications Officer), Djuna Thurley (Senior Committee Specialist).

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Third Special Report

The Work and Pensions Committee published its Second Report of Session 2022–23, *The cost of living* (HC 129) on 27 July 2022. The Government's Response was received on 24 August 2022 and is appended below.

Appendix: Government Response

Department for Work and Pensions response to Work and Pensions Select Committee report on The cost of living

The Department for Work and Pensions (DWP) thanks the Committee for its report on the Cost of Living of 27 July 2022. The scope of the inquiry, as set out by the Committee, focused on how far the Government's cost of living package will protect those most in need, and how effectively the social security system was able to respond and provide support.

The following paragraphs address each of the Committee's recommendations.

We recommend that the Department for Work and Pensions engage with the organisations mentioned throughout this report to assess what further or more direct support needs to be provided to any of these groups as the cost of living continues to rise. We also urge the Government to simplify the support mechanisms to ensure households understand what support they are entitled to and enable them to chase up receipt. (Paragraph 12)

The Department works hard to ensure that people are in receipt of their full entitlement. We communicate with the public about benefits through paid advertising, stakeholder and employer engagement, campaigns to help people understand their entitlement and the support we can provide as a safety net and in times of need. We have made additional use of digital media such as YouTube videos, particularly British Sign Language videos, to widely promote DWP benefits.

The Government's website, GOV.UK, provides guidance on individual's rights and entitlements to benefits in the UK. In particular, the website provides links to independent benefits calculators that can be used to find out what benefits an individual could get, how to claim and how these benefits will be affected if an individual starts work. https://www.gov.uk/benefits-calculators.

DWP is at the forefront of providing the most vulnerable people in society with extra financial help to help with the cost of living, including the £650 cost of living payment for eligible people on means tested benefits. To ensure people are aware of this help and that they understand how to check their eligibility, a cross-government Help for Households campaign was launched in July across a range of channels to co-incide with the first cost of living payments being issued. This campaign will continue throughout the Autumn to promote the wider package of support being made available to millions more people, whilst also supporting the next tranche of specific payments for benefit customers. A dedicated online 'hub' for information on the wider support package is also available at Cost of living support - Help for Households cost of living (campaign.gov.uk).

The adequacy and uprating of social security

We welcome the inclusion of those on legacy benefits in the Government's support measures. We recognise that there are logistical difficulties in getting the necessary support in place quickly, but the Government does not seem to have taken on board our previous recommendations to improve systems. While we understand that in this case one-off payments may have been quicker to put in place, and able to reach more people, we agree with the Secretary of State's opinion from 2021 that they are not the preferred approach. We recommend that other options, such as more responsive benefit uprating, are prioritised in future. (Paragraph 17)

The systems that legacy benefits run on are not fit for purpose. It is disappointing that the Department has not adapted its IT systems to allow for flexibility in uprating these benefits to respond to national events. The Department has scheduled and then delayed the migration of claimants from legacy benefits onto Universal Credit several times and the current date to complete this process for many is the end of 2024, leaving legacy benefits still in use for a considerable period. The Department must be able to uprate legacy benefits swiftly in times of high inflation. The Department should also publish (or at least provide to the Committee) for each benefit the details of the process, complexities and time required for the uprating exercise. We repeat our recommendation that the DWP work to increase the speed with which changes can be made to legacy benefit and state pension rates. (Paragraph 23)

While an annual uprating is workable and effective at times of stable inflation, it is not appropriate in more volatile economic circumstances and is causing people real hardship. In the medium-term the Department should reduce the length of time between the inflation reference period and the uprating implementation date to allow more flexibility in the system, preferably to the previous quarter end or more recent if possible. (Paragraph 24)

The temporary uplift in Universal Credit (UC) was intended to support those most affected financially by the impact of the Covid-19 pandemic when being newly unemployed. The cost-of-living situation now is different and affects everyone. One-off payments are the quickest way to deliver support to over 8 million customers in receipt of income related benefits and 6 million customers receiving disability benefits before the next benefit up-rating in April 2023. Over 8 million pensioner households will also receive a pensioner cost of living payment alongside their winter fuel payment this coming winter.

The Secretary of State commences her statutory annual review of benefits and State Pensions in the autumn using the most recent prices and earnings indices available. DWP IT systems other than UC, have a deadline of the last weekend in November to allow for all the required processes to take place to ensure the new payment rates come into force from the following April.

Given working-age legacy benefits are closing and those legacy claimants will be moved to UC by 2024, we will not be making any IT changes. There are no plans to change the up-rating period: using a consistent period for up-rating, for example, the 12 months to September to measure inflation means any peaks and troughs even out over time. For example, in 2012 benefits were increased by 5.2%; whereas by the following April CPI was 3% and in 2020 the increase was 1.7%; while CPI fell to 0.8% by April.

Where the Government continues to use discretionary funds, it should ensure councils are well supported to deliver the funding to the households who need it the most. We ask the Department to publish information on what local authorities have spent this funding on to date by the end of September 2022. (Paragraph 28)

We are clear that Local Authorities are best placed to decide how best to support local people in need, within the clear expectations set out in the Household Support Fund guidance. To support local authorities as much as possible to do this, each Local Authority has a designated DWP point of contact. DWP also provides specific data shares to help Local Authorities to target some customer groups.

We have published the Management Information (MI) for all completed discretionary schemes, including the Covid Winter Grant Scheme, Covid Local Support Grant and the first Household Support Fund. We also expect to be publishing the MI for the current iteration of the Household Support Fund after the closure of that scheme.

We recommend that, by the end of this Parliament, the Government review the adequacy of benefit levels and publish its findings. This should include a specific review of the adequacy of disability benefits and should consider whether it is appropriate to continue to rely on discretionary funds and one-off payments. (Paragraph 29)

The Government does not intend to conduct a specific review into the adequacy of benefit levels. There is no objective way of deciding what an adequate level of benefit should be as everyone has different requirements, and beneficiaries are free to spend their benefit as they see fit, in the light of their individual commitments, needs and preferences. Similarly extra costs disability benefits are intended to provide a broad contribution to additional costs faced by disabled people and individuals then have the choice and flexibility to prioritise according to their own needs.

It was right that the Government took a wide-ranging approach to the support that it offered to help the most vulnerable in society through the Pandemic and this period of global high inflation, which included utilising both the mainstream benefit system and discretionary support. In the autumn, the Secretary of State will undertake her statutory annual up-rating review of benefits and pensions. If certain benefits have not kept pace with inflation, she may increase them if she considers it appropriate, having regard to the national economic situation and any other relevant matters, by such percentage as she thinks fit.

Local Authorities in England are already funded through the local government finance settlement, on a non-ring-fenced basis, to deliver local welfare provision using their existing powers, should they wish to do so.

DWP should work with other Departments to make housing more affordable for those on low incomes, as it did in 2020. This must include an increase to Local Housing Allowance to ensure that it supports people on low incomes to access secure, affordable housing in their local area. (Paragraph 31)

On 9 June 2022, the Prime Minister announced a package of measures to turn Benefits to Bricks and improve access to home ownership, including for households in receipt of benefits. This is a cross-Government effort, with measures to be delivered by DWP including Local Housing Allowance for new homeowners, changes to capital rules so that saving for a deposit is no longer penalised, reducing the qualifying period for Support for Mortgage Interest, and a Housing Support Initiative to bring forward a new supply of affordable homes.

On the Local Housing Allowance, rates are not intended to cover all rents in all areas. Investment was significantly increased in April 2020 and rates have been maintained at those levels in cash terms; we are forecast to spend over £28.5 billion to support renters with their housing costs this year.

The assumption in the Spending Review 2020 expenditure forecast is that Local Housing Allowance rates will continue at their current level through to 2025–26 but this will be reviewed annually by the Secretary of State alongside wider benefit uprating decisions.

Benefit cap

The benefit cap should be reviewed urgently—and certainly no later than the end of 2022—to ensure it is in line with average household incomes and increasing rent/energy/food costs—the results of this review should be published. Furthermore, the cap must be uprated this year. (Paragraph 39)

The cost-of-living payment is intended to be a one-off payment to help with the rising costs. It is not a permanent benefit, which is why this payment is exempt from the benefit cap.

As the Secretary of State said to the Committee, she is reviewing further advice on this.

Deductions

We recommend that deductions are paused, and then only restored gradually as the rate of inflation reduces, or when benefits have been uprated to reflect the current rate of inflation.

While deductions for benefit overpayments were paused at the height of the pandemic, this was primarily to allow Debt Management staff to be reassigned to help process the surge in new UC claims made at that time. The Department does not believe that pausing deductions by default is necessarily in the claimant's best interest. The impact of any future benefit uprating would clearly be diminished if it also coincided with the re-introduction of any paused deductions. While claimants will have retained more of their award in the interim, they may nonetheless feel no better off as a result. Furthermore, pausing third-party deductions could result in an increase in enforcement action by third parties and would result in families losing out on essential Child Maintenance payments.

If the Government is not willing to pause deductions then it must increase awareness of existing options such as short-term pauses, and ensure that those who are struggling can get accessible and practical debt advice.

UC agents have access to guidance should any claimant raise hardship concerns. This includes considering if an advance deferral is appropriate, signposting claimants directly to Debt Management and signposting to external support provided by organisations such as Citizens Advice, Money Helper and National Debt Line. From August 2022, refreshed guidance for UC agents will ensure claimants who request an advance are encouraged to only apply for the support they require and are fully aware of the impact of taking an advance on the phasing of their future monthly award.

DWP is committed to supporting claimants who contact us if they feel unable to afford the repayment of benefit overpayments. DWP Debt Management will work with claimants to review their financial circumstances and consider a temporary reduction in their rate of repayment. The review period for such arrangements has also recently been extended. Notifications sent by Debt Management make this support clear, and there is also a range of information available on the Gov.uk website. Claimants who do contact Debt Management are routinely referred to the Money Advisor Network, who work in partnership with DWP to offer free independent and impartial advice.

The Government should also consider the Committee's recommendations on deductions and debt in our 2020 'Universal Credit–the wait for a first payment' report. We would welcome a response by the end of 2022. (Paragraph 55)

The Government already responded to these recommendations on 18 December 2020.

The Department did bring forward announced measures on extending the phasing of advances with regular awards to up to two years. We have also reduced the standard deductions cap to 25% of the Standard Allowance. This was delivered in April 2021 and has since helped hundreds of thousands of claimants to retain more of their Universal Credit award, whilst ensuring priority debts are addressed and key obligations are met.

Pension Credit provides vital support for pensioners, yet some 850,000 eligible households do not claim it. The rising cost of living means this must now be urgently addressed. The Government's efforts are focused on a communications campaign. The Committee heard, however, that this was unlikely to be enough. We recommend that the Government work with key stakeholders, including local authorities, to develop a written strategy to increase take-up by the end of 2022. This should include a plan for the most effective ways to identify households likely to be eligible and support them to claim. The Government should also explore ways to simplify or automate parts of the claiming process. The strategy should have clear aims, including a target for take-up, as well as a timeline of actions to be taken to achieve this and confirmation of how the strategy will be funded. The Government should provide an annual update to the select committee on achievements to date and any amendments to the strategy. (Paragraph 66)

The 850,000 figure is an estimate based on the Family Resources Survey. The Department does not consider that a written strategy or targets for take-up of Pension Credit are required, given the work it is already doing. The Department is already working with a wide range of organisations, such as Age UK,BBC and ITV, the Local Government Association, utility companies and financial services companies, to consider ways of reaching eligible pensioners. The Department's current campaign has been successful in raising awareness of, and increasing applications for, Pension Credit.

The Department is looking at processes within Pension Credit which might be simplified. However, as with any means-tested benefit which is designed to target resources on those most in need, eligibility for Pension Credit depends on a household's composition and financial circumstances, which can be complex. It is not possible to determine eligibility with sufficient accuracy to enable Pension Credit to be awarded automatically, based solely on the data held by Government.