

## EXPLANATORY MEMORANDUM

The Income Support (General) (Standard Interest Rate Amendment) (No3)  
Regulations 2004 No.2174

1. This Explanatory Memorandum has been prepared by the Department for Work and Pensions and is laid before Parliament by Command of Her Majesty.

### Description

2. The Statutory Instrument amends the current standard interest rate used in the calculation of housing costs for certain claimants of income support. The same rate also applies in relation to housing costs payable to certain claimants of jobseeker's allowance and state pension credit.

### Legislative Background

3. Following a change in the building society rates, this instrument is being laid to change the standard interest rate that is used in the calculation of housing costs for benefit claimants. Prior to October 1995, benefit claims were assessed using the lender's own variable rate. From October 1995, the standard interest rate was introduced in order to simplify benefit processing and reduce errors.

### Extent

4. This instrument is being laid due to a change in the law that applies to all of the United Kingdom as responsibility for social security has not been devolved to either Scotland or Wales.

### European Convention on Human Rights

5. The Parliamentary Under Secretary of State, Maria Eagle has agreed that the provisions of this regulation is compatible with the European Convention on Human Rights.

### Policy Background

6. The standard interest rate was introduced in October 1995 as an administrative easement in a highly complex area of benefit calculation, that had been the subject of critical reports by the National Audit Office and Public Accounts Committee. After detailed discussions with the Council of Mortgage Lenders, it was agreed that the standard interest rate would be set around the average rate of interest charged by mortgage lenders. It is based on the weighted average of basic rates charged by the top building societies. These rates are calculated by the Financial Services Authority, and are published on a monthly basis in Table 7.1L by the Office for National Statistics in "*Financial Statistics*". The policy is to change the

standard interest rate when it is different from the published figure by more than 0.25%.

7. The standard interest rate is used in the calculation of interest payments on eligible home loans and home improvement loans for certain claimants in receipt of income support, income-based jobseeker's allowance and state pension credit. The current rate is 5.59% and this instrument increases the rate to 5.88%. This change is beneficial and will result in increased benefit payments for mortgage interest for claimants who fulfil the qualifying conditions for help towards their eligible housing costs.

### **Consultation**

8. The Social Security Advisory Committee were consulted and agreed that the proposal regarding the amendment to the existing Regulations did not need to be formally referred to them.

### **Impact**

9. There is no impact on the costs of business and a regulatory impact assessment is not required. There is no impact on the voluntary sector. There is a cost to the Exchequer as a result of the increase in benefit payments.

### **Contact**

10. Dave Pryce, Housing Support Division, Department for Work & Pensions, can answer any queries regarding the instrument. 020 7962 8292  
Email: [Dave.Pryce@dwp.gsi.gov.uk](mailto:Dave.Pryce@dwp.gsi.gov.uk)