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GENERAL COMMITTEES

Public Bill Committee

WELFARE REFORM BILL

Third Sitting

Thursday 24 March 2011

(Morning)

CONTENTS

Written evidence reported to the House.
Examination of witnesses.
Adjourned till this day at One o'clock.

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The Committee consisted of the following Members:

Chairs: MR JAMES GRAY, † MR MIKE WEIR

- | | |
|--|---|
| † Baldwin, Harriett (<i>West Worcestershire</i>) (Con) | † Miller, Maria (<i>Parliamentary Under-Secretary of State for Work and Pensions</i>) |
| † Bebb, Guto (<i>Aberconwy</i>) (Con) | † Newton, Sarah (<i>Truro and Falmouth</i>) (Con) |
| † Buck, Ms Karen (<i>Westminster North</i>) (Lab) | Paisley, Ian (<i>North Antrim</i>) (DUP) |
| † Curran, Margaret (<i>Glasgow East</i>) (Lab) | † Patel, Priti (<i>Witham</i>) (Con) |
| † Elliott, Julie (<i>Sunderland Central</i>) (Lab) | Pearce, Teresa (<i>Erith and Thamesmead</i>) (Lab) |
| † Ellison, Jane (<i>Battersea</i>) (Con) | † Sarwar, Anas (<i>Glasgow Central</i>) (Lab) |
| Elphicke, Charlie (<i>Dover</i>) (Con) | † Smith, Miss Chloe (<i>Norwich North</i>) (Con) |
| † Fovargue, Yvonne (<i>Makerfield</i>) (Lab) | Swales, Ian (<i>Redcar</i>) (LD) |
| † Gilmore, Sheila (<i>Edinburgh East</i>) (Lab) | † Timms, Stephen (<i>East Ham</i>) (Lab) |
| † Glen, John (<i>Salisbury</i>) (Con) | † Uppal, Paul (<i>Wolverhampton South West</i>) (Con) |
| † Grayling, Chris (<i>Minister of State, Department for Work and Pensions</i>) | † Willott, Jenny (<i>Cardiff Central</i>) (LD) |
| † Green, Kate (<i>Stretford and Urmston</i>) (Lab) | |
| † Greenwood, Lilian (<i>Nottingham South</i>) (Lab) | James Rhys, <i>Committee Clerk</i> |
| † Hollingbery, George (<i>Meon Valley</i>) (Con) | |
| † McVey, Esther (<i>Wirral West</i>) (Con) | † attended the Committee |

Witnesses

Professor Elaine Kempson CBE, Social Security Advisory Committee

Sir Richard Tilt, Social Security Advisory Committee

Emily Holzhausen, Director of Policy, Carers UK

Professor Paul Gregg, Department of Economics, Bristol University

Public Bill Committee

Thursday 24 March 2011

(Morning)

[MR MIKE WEIR *in the Chair*]

Welfare Reform Bill

Written evidence to be reported to the House

WR 20 Low Incomes Tax Reform Group
WR 21 Scope
WR 22 Rhydian Fôn James
WR 23 National Autistic Society
WR 24 Mayor of London
WR 25 Scottish Federation of Housing Associations
WR 27 Centre for Social Justice (additional submission)
WR 29 Zacchaeus 2000 Trust
WR 30 Zacchaeus 2000 Trust (additional memorandum)

9 am

The Committee deliberated in private.

9.6 am

On resuming—

Q132 The Chair: We will now hear oral evidence from the Social Security Advisory Committee. For the record, would witnesses please introduce themselves to the Committee?

Professor Kempson: I am Elaine Kempson and a member of the Social Security Advisory Committee.

Sir Richard Tilt: I am Richard Tilt, the chair of the advisory committee.

The Chair: Before calling the first Member to ask a question, I should like to remind all Members that questions should be limited to matters within the scope of the Bill and that we must stick strictly to the timings in the programme motion that the Committee has agreed. Obviously, we will try to be as free-flowing as possible, but I would ask for short questions and relatively short answers from the witnesses, so that we can get through everything.

Q133 Margaret Curran (Glasgow East) (Lab): I thank both of you very much for attending this morning. I know, Sir Richard, that you are moving on, so many thanks for your contribution, which has been much appreciated.

May I ask particularly about the assessment criteria that are associated with the changes proposed to the social fund? Will local authorities in England be required to adopt national criteria and national standards, so that we have a uniform system throughout England? Do you know what the situation is with the Welsh Assembly and the Scottish Parliament? What plans do they have to ensure that there is still an effective programme?

Sir Richard Tilt: I am not sure whether I know the answer to that. As I read what I read, and as I look at the Bill, it seems to me that what is proposed is devolution

to local authorities, probably at unitary authority level. As you know, I was a social fund commissioner for many years. My view on all this is that we have a UK social security system and that, for the past 25 years, the discretionary social fund has been the ultimate, final safety net for the poorest and most vulnerable. If we have a UK social security system, I would argue for a UK safety net underneath it. It does not seem to me very likely that local authorities will provide that. I am not clear whether the Government intend to issue instructions to local authorities about what kind of scheme they should run, but I would be very sorry to see the end of a national scheme that provides proper underpinning.

Professor Kempson: As I read it, there will be no ring-fencing, and I cannot even see that there is any proposal as yet to build in any form of accountability by local authorities. That is the very least that is needed. Otherwise, we will find even less fairness than the Public Accounts Committee found when it inquired into the current social fund. I am referring particularly, of course, to community care grants and crisis loans.

Also, at the moment, people at least have the right to apply for a community care grant and, if they are turned down, the right to apply for an independent review. As I understand it, that, too, will be going, so I am a little concerned. I know from the research that I have done that the people who apply for community care grants are, undoubtedly, the most vulnerable people—they are incredibly vulnerable.

Q134 Margaret Curran: What would be the consequences of the proposal? Would people in dire need have no recourse to any kind of help?

Professor Kempson: We did some work—admittedly, some years ago, but I cannot believe that the situation has changed—for the Department looking at people who got partial awards or were refused entirely, who, I should say, were the majority. Very few got exactly what they asked for. They had very little—I am talking about community care grants—to fall back on. Hardly anyone had any savings at all, and if they had they were less than £100. They had few friends or family to call on, and often their family was the cause of the difficulties that they were facing—abuse, being thrown out of home and so on. Family breakdown was frequently a cause. They frequently had no access to low-cost credit, or to any credit at all. The consequence was that many of them applied for a budgeting loan, and we might find greater demand for payments on account.

A third of the combined group of partial awards and refusals still did not have essentials up to a year later, and that included cookers, beds and so on. Of those who had been refused altogether, half still did not have them. I think that tells us what might happen.

Sir Richard Tilt: May I come back on the Scottish and Welsh point?

The Chair: Miss Patel has a question on that.

Q135 Priti Patel (Witham) (Con): My question is specific to local authorities. There have been many views about the remoteness of the social funds, and by giving money to the local authority, surely there is an opportunity to ensure that money and funds are targeted

at those who are vulnerable and in need of support in the local community? Is this not an opportunity to concentrate on getting money to those who really need it?

Sir Richard Tilt: Yes. I see the theory of that. If you take the example of providing adaptations to disabled people, which is done through local authorities, they have been very poor at doing that. Often, people are assessed as having significant needs, but they cannot meet those needs because the money is not made available. My experience of local authorities is that that provision is patchy. Some will provide perfectly good services, but many will not. I think there will be a patchwork or postcode lottery, and it will be very different across the country.

Professor Kempson: Yes, I would endorse that. I think that that is where the concern about apparent lack of accountability from local authorities comes in. Some will provide a better service than we have now; many will provide a worse service; and some, I fear, will provide almost no service.

Q136 The Parliamentary Under-Secretary of State for Work and Pensions (Maria Miller): Are there examples of local authorities already trying to make sure that they get support to people who really need it? Are there any examples that you think perhaps could be used to help local authorities improve the way they deliver that local support in future? Both the National Audit Office and Public Accounts Committee have publicly criticised the way targeting happens at the moment, so presumably a move to local level gives us the opportunity to ensure that money is better targeted. Are there examples of where people are doing that well at the moment that you would put forward as good case studies?

Sir Richard Tilt: Two simple examples. I have seen good work done in Liverpool and Belfast with recycling of goods—recreating them, refurbishing them, and providing them to poor families. That can work very well, but I have not seen a lot of it, and it takes quite a lot of organisation. Community care grants are the bit I am most concerned about—£141 million. By the time you that have dished that out to 100 plus local authorities, there will not be a great amount of money at local level, and I think, as it is not ring-fenced, it is likely to disappear into other things.

May I respond on the Scottish and Welsh point? I simply want to say that as the thing is proposed, I imagine an equivalent amount of money will go to the Scottish and Welsh Governments. I think there is a real possibility, particularly in Scotland, that the Scottish Government might decide to run something akin to the community care grant system on a national level. I do not know whether that will happen, but my experience of dealing with both Scotland and Wales is that there is quite a likelihood of it happening.

Similarly in Northern Ireland, where the provision is much more generous, and almost historically has been much more generous, there is quite a possibility that the Northern Ireland Assembly might seek to create such a scheme.

Q137 Kate Green (Stretford and Urmston) (Lab): May I first place on the record my personal appreciation of Sir Richard's contribution as chair of the Social Security Advisory Committee? It has been really wise and valuable over a number of years.

I want to pick up the point you were both making about accountability, and I think you said, Professor Kempson, there would not be a right of independent review as you understood it. In that context, how do you suggest that safeguards to ensure the decision makers are held accountable could be designed and put in place?

Professor Kempson: I am still thinking about that. I think that it is going to be quite difficult, but it is something that we need to crack. We need collectively to give our mind to it. If this is going to be put at the local level, we must have some form of accountability. Perhaps the kind of relationships that the Department has with some subcontractors—for example, the delivery of Jobcentre Plus services—might form a model for that so that there is some sort of contractual agreement. However, with the potential for such wide variability across local authorities, I think that if there were no form of accountability, many vulnerable people living in some parts of the country would get nothing, frankly.

Sir Richard Tilt: Again, I am guessing a little, but I assume that the Government's intention is for local authorities to exercise powers under the Local Government Act 2000 for general well-being in the local area. One of the things that could be done is to turn those powers into duties. You would need to describe a scheme and give local authorities some rather specific duties in relation to it. If you are looking at accountability, you could then underpin that with some form of independent review mechanism at a national level that allowed people to test local authority decisions. It would not have to be the same one as now, but that sort of model.

Q138 Priti Patel: I should like to follow up on this point about accountability and people, because, currently, the language sounds incredibly bureaucratic. It is about process, yet we are talking about people who are vulnerable and need help and support. How do you suggest going forward, particularly with local authorities—I welcome your views on this, to be perfectly honest—so that there is real fairness in the system and people who are in need actually get the money and support that they need? It sounds quite mixed right now. From your comments about local authorities, Sir Richard, it seems that there is a patchwork.

Sir Richard Tilt: I think that the present system is mixed. A very large problem that people need to recognise is that there is almost certainly not enough money in the community care grant budget, which is a cash-limited one. One understands the reasons why it is cash-limited, but £141 million is not enough money to meet what most people would describe as legitimate need. The estimates that we made a year or two back were that the figure probably needed to be closer to £400 million. If you got to that sort of figure, you would have a much better chance of providing a decent service across the whole country.

Q139 Priti Patel: But does that not become subjective? It would then be about defining what is considered to be a decent service.

Sir Richard Tilt: Yes, that is an entirely fair point, and there will always be arguments for yet more money, but if you look at the figures over the years of the number of people out of those who apply who actually get

community care grants, and then at the fact that the decision is overturned in half the cases of those who go to the trouble to ask for a review, they suggest that we are not actually meeting legitimate need at the moment. However, I do take the point that there is subjectivity as to where you set the absolute level. I think we are way below it at the moment.

Professor Kempson: The other point that we need to bear in mind is that even most of the successful applicants do not get all the money they apply for. At the moment, we have this really rather silly situation where that is known by the care professionals who tell people to apply for more money than they need to try to get somewhere close to what they actually require. That shows, rather like the old budgeting scheme some years back, that people have to circumvent the system because it is currently not meeting need.

Q140 George Hollingbery (Meon Valley) (Con): I am slightly mystified by why you do not trust local authorities and local councillors. They are elected by local people to represent them, and are closest to their communities. Why is it that you have this visceral lack of trust in local councils to deal with this properly?

Professor Kempson: The level of services already provided is incredibly variable, and if the money is not ring-fenced—I would trust them if it were ring-fenced, but it is not—some local authorities will, frankly, have higher priorities, and the money will not be used in that way. It is variable.

Q141 George Hollingbery: I hate to cut across you, but I was an elected local councillor for 11 years, and I cannot imagine a higher priority.

Sir Richard Tilt: Yes, but that is not what happens everywhere. I do not have a lack of trust in local authorities. Many of them do very well, but my experience is that you get a very patchy service. Some local authorities provide a good service, but others do not. I gave you an example of adaptations for disabled people, where just across a boundary you could see quite a different level of service being provided. The other thing about local authorities—presumably locally elected people—is that they decide where they want to put the money. The money for this is being given to local authorities for them to decide where they want to put it. Some local authorities will decide not to put it into the equivalent of community care grants.

Professor Kempson: If you look at the level of welfare rights work done within local authorities, that will show quite clearly that some have a strong commitment to that and others have very little. Some social workers do help people apply for grants; others and other local authorities feel that is not part of their job. Their job is about relationships, not about money. So there is quite a wide variety. I speak as somebody who used to work in a social services department; one where that was not a high priority.

Q142 Sarah Newton (Truro and Falmouth) (Con): I wonder whether you could describe how you feel the current arrangements work for elderly people. I am concerned about the specific needs of elderly people. There is a huge amount of pensioner poverty sadly in our country. Especially through the community grants, how well does the current system work for them?

Professor Kempson: Rather badly. They do not apply very often. If they apply, they are treated as everybody else, no more likely not to get help. However, they do not apply in large numbers, and that has been a concern for quite a number of years.

Sir Richard Tilt: But it is potentially a very sensible scheme for elderly people. As Elaine said, I think about 10% of the money at the moment goes to people of pension age. By spending a very small amount of money, you can help people to stay longer in their own homes. That is a very good investment for all of us as taxpayers. Just a few hundred pounds will often be the difference between staying in their own home and having to be taken into residential care or hospital.

Professor Kempson: I think that part of the explanation for that lies in people's feelings about applying for a community care grant. The people who apply for community care grants describe it as humiliating to have to ask for one. We know from work we did for the Department—a separate piece—on why pensioners do not apply, that it is exactly that, the stigma and humiliation. It depends on which part of a local authority or which organisation locally provides it, whether it would overcome that.

The Chair: Okay. I think we have to move on.

Q143 Paul Uppal (Wolverhampton South West) (Con): I will be very brief, as I know time is pressing. Historically on the social fund, I wanted to focus on distribution. How has that gone in the past? We have already touched on issues such as finite resources and that it can be demand led. I was interested in your experience of how it has been done historically, and specifically whether you think it has been fair.

Sir Richard Tilt: No, I do not think it has been entirely fair, although the Department has tried to make some shifts in the way the budget is distributed. In the main, the budget is distributed on the basis of historical spend up to the 1980s on the single payments scheme that preceded the social fund. At the point at which the social fund was introduced, the level of expenditure to different parts of the country at that time was set in concrete, and has been changed little in the 25 years. A number of people, myself included, have argued a number of times that there needed to be some change in the budget allocation mechanism. Curiously, London, for example, is rather better provided than some parts of the north of the country. As I said earlier, Northern Ireland is particularly well provided in comparison to the rest of the United Kingdom. There are anomalies and it has been difficult to shift them.

Q144 Paul Uppal: Do you think that has been specifically demand, or the way it has been presented, or anything like that?

Sir Richard Tilt: Well, there was a different level of demand to start with; that is how the budgets got to where they were. Over 25 years things shift. There is also some evidence that there are different cultures and practices in different parts of the country, so people are more used to making applications to the social fund than they are in some other parts. There is the issue with the elderly, as well.

Professor Kempson: I have nothing to add to that.

Q145 Jenny Willott (Cardiff Central) (LD): You have already covered some of this. I want to ask about ring-fencing. As we know, the funds are not going to be ring-fenced. What could the Government do to ensure that the funds are used as intended? You mentioned social workers in some areas being better at supporting people and so on. Is there a way that they could be better utilised to ensure that basic minimum levels are provided everywhere? Is there a way for the Government to work with local authorities to do that?

Sir Richard Tilt: That requires, as I said earlier, somebody setting out a national scheme that local authorities need to administer. I have suggested that giving local authorities duties to do certain things might be a helpful way of doing that.

Professor Kempson: I do not think that I have much to add to what Richard said earlier other than to make the point that we should not imagine that all of the community care grant applicants are known to social services. They are not. To return to your earlier question, even where people that we were interviewing were known to social services, they were frequently not told about the community care grant by those people, but rather by other caring agencies, such as citizens advice bureaux, hostels and so on. To pin all our hopes on social workers would not be the right solution. If one did put it down to the local level, it would require cross-agency working, and that is going to be quite complex and difficult to orchestrate. That would mean bringing in probation workers, mental health nurses, CAB and hostel workers, which is a wide range of different people.

Q146 Sheila Gilmore (Edinburgh East) (Lab): It is my experience of the social work department in my local authority that they increasingly only work with people when they hit certain criteria about substantial critical needs. My experience of that has been in terms of working with some families who perhaps have children with problems and so on, but until they reach a certain level, they are not even being picked up. From your experience, would social workers necessarily be in a position to take on that kind of role in an even bigger way?

Professor Kempson: It goes back to what I was saying. Many of the people that we interviewed are not known to social services and are not being assisted by them, but they are being helped or are in contact with other agencies. Ex-offenders, typically, do not come into contact with social services.

My other concern is that a number of the people who we interviewed had been moved from one local authority to another, and I am not quite sure where you would be applying for the grant. I can think of one particular case of a young woman, who had been both sexually and physically abused by her family, who was moved from Birmingham to Somerset and was not told about the community care grant until the CAB told her. She applied, but did not get it until the child was injured, and she then received some money to carpet the concrete stairs. I do not quite see how she would be helped. Where would she make contact? The people that she is most in contact with are in Birmingham, but they would not be able to activate it in Somerset. There are lots of practicalities that one needs to think through. It gets more complex the more you devolve it.

Sir Richard Tilt: I think that you make a good point. In the cases that I was dealing with, many of them would not have been in contact with social services. Indeed, in those cases where giving a community care grant was successful, that might well be one of the things that actually prevented them from coming into contact with social work departments. It just saw them through. Most community care grants go to families under exceptional pressure.

Q147 Sarah Newton: It is quite interesting to hear the extent to which you talk about the first port of call for the most vulnerable people in society actually being the voluntary sector. Could you elaborate on how you feel that the voluntary sector could take a greater role in this process?

Sir Richard Tilt: Well, I think that we should recognise that the voluntary and charitable sectors have taken on a considerable role. I used to have contact with the Association of Charity Officers, which provided, in total, as much money as the community care grant system. There is a lot of scope for voluntary organisations, provided that they have the funding, and that is no doubt getting more difficult.

Professor Kempson: Again, it comes back to the co-ordination and having some certainty that somebody living in Somerset gets the same level of service as somebody living in Liverpool, for example, because there are many more voluntary organisations in Liverpool than there are in Somerset.

Q148 Sarah Newton: Representing a remote and rural part of the country as I do, there is a rich fabric of voluntary organisations. I work with my local organisation that is tackling domestic violence.

The Chair: Order. I am afraid we have run out of time. We must move on. I thank the witnesses for their evidence. I ask the witness from Carers UK to come forward.

9.30 am

Q149 The Chair: Would you introduce yourself to the Committee for the record please?

Emily Holzhausen: I am Emily Holzhausen. I am director of policy from Carers UK, a membership organisation of carers, which is run by carers.

The Chair: Thank you. The first question is from Sheila Gilmore.

Q150 Sheila Gilmore: Carer's allowance has been left out of the universal credit. Do you welcome that decision? How do you think it will work?

Emily Holzhausen: Yes, absolutely. We welcome the decision. Taking carer's allowance into universal credit as a whole benefit would have meant means-testing an extra 225,000 to 250,000 people. We would have seen that as a very retrograde step. Carer's allowance is the only thing in the benefit system that provides an independent income for carers that recognises the enormous contribution that they make to society. We would have seen that as a retrograde step, so we are delighted that it is being kept outside. Who does move in, of course, are all those who

are in receipt of income support. Progression to earn additional money and keep more of your benefits with a change in the withdrawal rates will benefit that sector.

Where we would like to see change really is around the earnings thresholds. We would like more clarity about how much carers could earn if they were within universal credit and still keep that element of the benefit. I know that discussions are going on about fire-walling and things like that and how you describe benefits. What is not tackled is this: carers are now able to earn £100 after deductions and still receive carer's allowance; that will not change, so that is still a problem. If they earn over that £100 they lose 100% of their benefit, so it is a very high penalty. We do not have an awful lot of carers who are working and caring. There are only about 44,000. Those statistics are quite old, so the Government could look at using some of the mechanisms that they have already and how they are reforming jobseeker's allowance and apply it to carer's allowance outside the system.

Q151 Paul Uppal: You have given quite a comprehensive answer, but I will broaden it out a little. It was quite a contentious thing and there was quite a bit of discussion about it. Do you think it was specifically about the carer's allowance being left out? Do you feel in any sense that it was perhaps a missed opportunity for the Government in this respect?

Emily Holzhausen: No, I do not. We consulted our members. Why would you take in those 44,000 who do have earnings? They would not necessarily all get to keep those earnings. They would not all be better off. Why would you means-test a whole swathe of other people who would lose their only source of independent income to help a small minority of people? The Government clearly judged it well and they have judged it on the balance of what they get back from carers' input and I think they made the right decision.

Q152 Jane Ellison (Battersea) (Con): You touched on conditionality. The White Paper sets out a new conditionality and sanctions regime for universal credit. It would be interesting to hear your comments on that in general terms. With carers being excluded, how can they be identified for that purpose? Could you talk about some of the challenges around that?

Emily Holzhausen: That is an excellent question. Conditionality takes up a lot of our advice line and helpline time. People worry about conditionality when they are drawn into a work-focused interview that they cannot attend because they are providing too much care, or when they feel that they are being forced back to work and that is impossible because they cannot get the social care in order to do that. We do not want a system that sets people up to fail, particularly when carers are saving the state £87 billion a year. We are not there to punish families; we are there to help them.

The fact that carers will not be subject to conditionality is very important. We think that there are certain areas in which the system needs to be more flexible. For example, if you look at a single parent, conditionality will apply to her, but if she has caring responsibilities, that may not count. How do we roll that out? It might be that she could go back to work if she was just looking after her children, but if she is also caring for her mum that is enough to make it impossible for her to return to work. We need sensitivity around conditionality.

From the work of the previous Government, I have to say that one very important learning issue is how you roll that through the Department—how you deliver it—because although we might have a policy written at the national level, how that is delivered by advisers makes all the difference as to whether a family is properly supported or not. The Government really need to invest wisely in making sure that the system is sensitive.

Q153 Jane Ellison: And the identification point.

Emily Holzhausen: On identification, there certainly needs to be clearer ways of training, because although caring is part and parcel of our life, people still do not recognise it as an issue or recognise how it impacts on people's lives. We need some standard way in which all advisers are able to identify carers. We would say that there needs to be a clear definition of what caring is, so that we set reasonable thresholds.

Q154 Priti Patel: May I follow up on that point on the specific area of the definition of carers? What practical measures do you think can be brought forward to bring carers closer to the employment market? Obviously, there are opportunities out there, but it is about understanding their predicaments and situations—the facilitation of the closeness to their caring roles and responsibilities—to enable them to get into work.

Emily Holzhausen: In the context of welfare reform, it is very important that carers are still able, if they choose, to have an opportunity to take advantage of any work-focused programmes that might help them. Some of the bigger problems, however, come from the lack of funding of social care, so that people cannot work, cannot return to work or fall out of work—26% of those who were out of work were out of work because there was insufficient social care.

I am sure that everybody is familiar with the arguments about child care, and about how investment in child care has revolutionised the ability of women—and men—to return to work and stay in work. Exactly the same is true of social care. If we want people to stay in touch with the labour market, we need to invest in social care. I know that that is not the subject of the Bill, but it cannot be seen as divorced from that. As I say, you must have access to learning opportunities, but you have to have support behind that, and flexibility from employers—this Government have continued the previous Government's focus on flexibility, which is very welcome—is also part and parcel of keeping people in work and in touch. People are more able to return to work if they know they have a supportive employer.

Q155 Harriett Baldwin (West Worcestershire) (Con): You mentioned that carers have an earnings disregard of about £100 net a week, and there is a complete cliff edge after that. In a way, carers already experience the universal credit, because they have the allowance, then they have a disregard and then they have a 100% cliff edge. What do you observe in your population? Do you see people clustering around that £100 net a week? Would you welcome any examination of the potential of changing that cliff edge?

Emily Holzhausen: Absolutely. We would love to have some figures around that. The Department has studied a report by the university of Leeds, which has not been

published but may include some of that data. I can only go from what we say on our helpline, because I have no other data to hand. There are no other official data that I am aware of. People tend to cluster just below that. There are a couple of reasons for that. One is that it becomes very difficult to find work and jobs that you can do for under £100, those little bits of work. The second is the risk of going over that £100. We get that desperate call around Christmas time: they have been given a Christmas bonus and have just lost their carer's allowance, or they get a productivity bonus and lose the carer's allowance—for being a good employee.

We do have those people who are in connection with the labour market. From some very old research, I know that the vast majority of people on carer's allowance are providing very heavy-end care. For some, their ability to return to work will be more heavily constrained. I would welcome some modelling. If the Government were able to come up with some different scenarios, we could look at working with them to test those proposals. I would certainly welcome that.

Q156 Harriett Baldwin: Do you lose carer's allowance for the week you go over £100? How does that work in practice?

Emily Holzhausen: It is averaged out over a period, which, I am sorry, is part of the complexity of the benefit rules. If you are paid weekly, it may be losing weekly. If you are paid monthly, it may be losing monthly. Or, if they can establish a pattern, that may be longer. We did have one case where somebody lost a whole year. That is unusual; it tends to be more on a monthly basis. When you explain to a carer that they are taking on the risk of losing that £53.90, they usually feel that is too big a penalty to pay.

Q157 Julie Elliott (Sunderland Central) (Lab): As you know, disability living allowance is the underlying entitlement benefit for carer's allowance, and DLA is being abolished. From the point of view of carers, do you agree with the reform proposals, and how do you see them working?

Emily Holzhausen: We have a number of concerns about how the reforms of the personal independence payment are shaping up. Our biggest worry is that no real analysis has been done on the impact on carers. That is a big concern. It is the gateway for getting carer's allowance. We don't know how many carers will continue to receive carer's allowance as a result of those gateways. It could cut both ways. You could increase the number, or indeed decrease the number. Several tens of thousands of people could lose out.

Overall, of course we have concerns about the budget reductions around the personal independence payment. People tend to look at carers receiving carer's allowance, but personal independence payment is linked to a whole string of different things in the family. For instance, the family car with the mobility component makes a difference as to whether you can go out and about with your child. All those levels contribute to family income and disabled people's independence. It is urgent that we get a full analysis of how the changes to disability living allowance will impact on carers, and to see what we are talking about.

There are a few elements where the personal independence payment is looking more positively at catching up with commissioners' decisions. We welcome

that. There is still more to do. Certainly, taking evidence, for example, from carers on the condition of the person they care for, it has been shown that that evidence can make all the difference in work capability assessments. We should be looking at getting a full set of evidence from the people who really know. We accept nowadays that carers can be experts in care. We do know the people we care for extremely well, and that should count alongside other forms of evidence.

The Chair: Thank you very much for coming to the Committee. We will move on to our next witness.

9.45 am

The Chair: I remind Members that this sitting ends at 10.10 am. There are a lot of questions for the professors, so I urge you all to ask succinct questions and give answers. Could you introduce yourself to the Committee, Professor Gregg?

Professor Gregg: I am Professor Paul Gregg from the university of Bristol. I was involved in writing a review for the Department for Work and Pensions a couple of years ago of back-to-work conditionality for people on employment and support allowance, but in a sense, my regular and main job is around welfare to work, work incentives and welfare design with respect to helping people back into work.

Q158 Sarah Newton: Thank you for joining us this morning. The universal credit provides a framework to help the poorest people back into work and make all hours of work pay. First, what do you think about that? Secondly, particularly for lone parents, who struggle to get back into work, how do you feel about the role of mini-jobs and the prospect of self-employment to help people get back into the workplace?

Professor Gregg: The universal credit involves three big structural changes. It is merging the in-work and out-of-work benefit systems, merging the housing benefit system into the rest and putting all the out-of-work benefits into one space. The two big features that you are getting at are that we are moving towards removing the big step changes when you enter the tax credit system. The current system is that there is almost no incentive to work until 16 hours if you have kids, and then bang, you have a big step, so everybody jumps to that point or does not move at all. In a sense, you have a polarised position with nobody in the middle.

The first key design change is that those jobs in the middle—mini-jobs, as you have called them—will become viable for people, which they currently are not. That applies to both sides. I think that it is important that people have it in their heads that it is not just people moving out of work into mini-jobs; for many lone parents currently jumping 16, 17 or 18 hours, the incentive will be to go the other way. Because you are smoothing out that step or jump, people will move from both ways.

That is compounded by the second feature, which is that the withdrawal rate is quite high. Net, it is 65p in the pound, so the incentive to work a little more—to work the extra hour; to do eight, 10, 12 or 16 hours—is relatively small at each step. When you move into the tax system, it becomes 76p in the pound. Those are relatively high effective tax rates. That is the second feature of all this—the incentives to work are improved

by mini-jobs and, for those with high housing costs, taking jobs with £15,000 a year—but the incentives to progress more or earn more are being weakened under the system, particularly for second earners, who face the high 65p tax rate before they enter the main tax system, whereas under the current system it is 39p.

So we have a big gain on one side, but some losses on the other side, because of the high withdrawal rate, particularly before you enter the tax system. For the first job at low hours, or the second job within a family, marginal tax rates are high. The incentives to work are going to be reduced, if anything.

Q159 Sarah Newton: May I ask you to answer my particular question about your feelings? I accept what you say about the fact that it is creating a framework. At the moment, because of the financial constraints facing the country, the marginal rates of tax might not be as desirable as we would like. Hopefully, over time, they can come down to increase the incentive. However, my fundamental question was this: do you think that the fact that every extra pound earned will make a financial contribution to the family or individual is a beneficial feature of the system?

Professor Gregg: The simple answer is yes, but when you are balancing child care costs, the desire to look after your children and so on, the incentives need to be fairly strong for you to work more. Another feature that was not mentioned in your question, but sort of features in this, is the cut in the generosity of support for child care that is currently coming through and, as I understand it, will be enhanced under the new universal credit, so we will no longer have 80% of child care costs covered; it will be 70%, or perhaps 65% or 60% under universal credit. We are creating a system with strong incentives to work a little, but fewer incentives to work more. There has been a reference to mini-jobs, and there is a fear that we are creating a system and a design for people to take mini-jobs, but to stay there instead of progressing and becoming more independent of the tax and benefits system.

The Chair: We will move on to the next issue.

Q160 Kate Green: I want to ask Professor Gregg, in the light of what he has just said, what he thinks the overall impact on in-work poverty is likely to be.

Professor Gregg: Okay. The first point, which directly follows from that, is that we are creating a strong incentive for people to work a little, which will not lift them out of in-work poverty. They will not go far enough to get out of in-work poverty. The current system should get you—particularly lone parents—to jump far enough to get out of in-work poverty. That is not so for couples so much. We are creating a zone where people will work a little, but not be sufficient to get out of poverty.

I would like to say two additional things that are particularly relevant to that question, but have not cropped up before. The first is that the tax credit system—the universal credit system—will be uprated with the consumer prices index, which is relatively ungenerous. The in-work support will diminish with time. If we have real earnings growth—obviously, we do not have that at the moment—

and if we return to such a situation, that will be eroded by lower credits over time, which tends to enhance in-work poverty.

The income tax system will be linked to the retail prices index, continuing for the foreseeable future. The current Government, particularly the Liberal Democrats, are encouraging the idea that tax allowances at the bottom end should be increased under a net taper, which we have under the universal credit. All those benefits for lowering taxes for the low paid will be eaten away in lower credits. The Liberal Democrat policy of trying to redistribute money towards the poor through the income tax allowance system will essentially become pretty much redundant if it is all taken away again, or if 65p of it is taken away in the universal credit. There is a conflict between the arms of the tax policy and the universal credit policy with uprating and with the treatment of now having a net taper rather than a gross, where this does not change—taxes and the benefits do not interact in that.

Q161 Kate Green: The other thing I want to ask about is the transitional protections. The Government have said that nobody will be worse off at the point of change as they migrate on to universal credit, but we are obviously unsure what might trigger a change in circumstances, and therefore remove that transitional protection. We understand that family circumstances change quite frequently, and I wonder whether you could give us some sense of your analysis of the likely impact of that.

Professor Gregg: As you say, it is unclear to me what will trigger a change in circumstances. About 400,000 people a month are moving on and off benefits, so that is a huge flow. Changes in earnings, changes in rents and changes in child care are all features within the new universal credit, which potentially will be adjusted on a monthly basis. The previous system was adjusted on an annual basis, and the old working families tax credit was six-monthly. In a sense, there is a large array of potential monthly triggers, which could lead to a change of assessment, and which could reclassify people between transitional protection and the main benefit. I am not clear how that will work.

Again, the point about uprating only with the CPI emphasises that there will be quite big losers down the line. At the point of transition, the losers are not high. The transitional protection and increased generosity will protect a lot of people, but as we go through time, we will see the generosity of support diminishing because of the link only with the CPI.

Q162 George Hollingbery: We have received a lot of evidence from around the world that financial incentives in these sorts of scheme are perhaps less important than might be imagined, and we certainly heard that on Tuesday. In your view, is it more important to get people back into work at all, or to worry about the fact that they might come down the income scale because of financial incentives?

Professor Gregg: This is bread and butter to people like me, and probably bores everyone else stupid. Yes, there is a big difference in the responsiveness of people to the incentive to work at all relative to the incentive to work a little bit more. The participation incentive, as it

is called, seems to be more malleable. People's behaviour changes more on the participation decision—to work or not—than it does over the marginal tax rate. You are right that there may be benefits in getting people to participate at all, and not worrying so much about the effects of the relatively high effective tax rates subsequently.

Because of that sensitivity over the participation decision, a key feature of these kinds of system around the world has been to try to get people to jump a distance. The American system has a positive zone, where people get more credits to make it attractive to jump. We had the hours system. Those create incentives for people to jump—at least so far—and the system does not worry so much about how much more people work.

Here, we are, in a sense, getting rid of that jumping device. The participation decision is likely to be made much more in the mini-job zone, rather than jumping further, so we are creating an incentive to work a little, in the way that I have described, but people will tend to stick at there.

Q163 George Hollingbery: Is it right?

Professor Gregg: I like the idea of devices to encourage people to go far enough to make a significant contribution to their living standards. The hours rule does not fit well with the universal credit, because we do not particularly want to collect hours information as well. Income disregards in the tax credit system help, because people can earn up to that level before they kick in, but there are other potential devices, such as the American one, which are interesting in trying to get people to jump.

The universal credit system may be more about conditionality. It is still unclear how there may still be in-work conditionality, rather than only out-of-work conditionality, to get people to go further. That might be the solution in this case.

The Chair: We shall move on to the next issue.

Q164 Stephen Timms (East Ham) (Lab): I want to ask you some questions about the 65% taper rate, which you have already commented on. The Institute for Fiscal Studies told us on Tuesday that it thought a neutral rate, compared with the current system, would be 60%. The Centre for Social Justice said it should not be set at more than 55%. Where would you be in that range of views?

Professor Gregg: There are two parts to my answer on that. If I were setting the rate, I would go for 55p. That was the rate that was set under the working families tax credit, which seemed to be quite effective. However, I would like to put it into people's heads that there are distinct disadvantages for second earners and for the tax system in having a net taper relative to a gross taper. A net taper erodes the gains that people get from being outside the tax system—if you get a tax cut, the tax credit erodes it under a net system that is not a gross. I would go for a bit lower—

Q165 Stephen Timms: Can you explain the distinction between net and gross?

Professor Gregg: The current system has a gross taper, which is 39p in the pound, irrespective of whether you are in the tax system or not. So it is 39p plus tax, or 39p without tax, and it stays there. Under a net system,

it is 65p if you are not in the tax system, but that is net. If you are in the tax system, it is 65% of everything after tax, which results in 76%.

Under the net system, if you move the boundary between tax and not—you pull people out of tax—they lose 65p of that, because that is the gain. A gross taper system does not change anything—it is just 39, 39, 39. It is a design feature that reduces the amount of spend where people—second earners, or first or second jobbers—are outside the tax system. It therefore costs less to the Exchequer, but creates disincentive effects for participation of married women and so on.

Q166 Stephen Timms: As you know, council tax benefit will be excluded from the measure and devolved to local authorities. Given the concerns that the Government and others have expressed about work incentives and marginal deduction rates, do you think that local authority decisions on their own versions of council tax benefit ought to be constrained in some way? If so, how?

Professor Gregg: Yes, this is a bit ugly. The first point of it being outside and subject to a second taper is that you have a supplementary taper system on top, which is unhelpful. The second is that one of the key features of the universal credit is the idea of simplicity, relative transparency and a single system, and potentially we will have 150-odd different variants set by local authorities for the council tax benefit. That jars with the fundamental logic of a universal credit. Taking part of the system, sticking it outside and making it highly diverse does not fit well with the idea of simplification and transparency. I think that that is a mistake and that you should try and get it inside. At the very least, you should have the same definitions of income, so that things can be transparent and to minimise the extra complexity that might arise out of having highly diverse local variations in a system.

Q167 Stephen Timms: But what about if you were to fix the taper rate for local authorities at 65% or the same—

Professor Gregg: You would still have a problem of trying to integrate it with the universal credit. Does it come before the rest of the universal credit in terms of the taper? That is not easy when you have something assessed separately. That is occurring in other areas too, where you have things potentially outside, but there is a certain logic of replicating as much of the universal credit system as within the council tax benefit system to try and reduce the complexity. Obviously, the simplest one would be to get it inside and subject to the same rules as the rest of the system.

Q168 Harriett Baldwin: On the taper, we would all like to see it as low as possible, but I wonder whether, as a professor, you have seen any academic research on people's behavioural reactions to different taper rates. Is there a body of evidence we could look at?

Professor Gregg: Yes, there is a body of evidence. As I intimated earlier to the question, it is less sensitive to incentives than the participation decision to work or not. It is more sensitive among married women with children than single people and first-earner men. The biggest likely response, or the most sensitive group, is that second-earner group, which I was talking about. They are the ones most likely to respond to radical

changes and incentives for quite obvious reasons—there is a second job you want to be doing, which being is with the children. If you have a low margin of distance in terms of total income, because you are losing 65p in the pound of it from working more or not, you cut back. So, lone parents and married women with children are the most sensitive. Men, particularly older men, are the least sensitive. The young are also quite sensitive. That is not about kids; it is probably about Xbox.

Q169 Harriett Baldwin: How many more people would work more as a result of a lower taper rate?

Professor Gregg: The punch line is probably that lowering the taper rate increases the cost for where people are now, substantively. You would not get all of that back by changes in behaviour. You may get about 40% or 50% back. You would still have substantive extra costs, even after behavioural responses. It is not enough to make it a free choice. It does involve costs. I think that is a fair representation of where we are, which is why there is a tendency to try and push it up, because it reduces overall costs.

Finally on that, there is a third alternative that I am quite attracted to, but it is costly. Overlapping taper rates of that kind and the tax system is the problem. What we have is an earnings distribution. Most people are in the middle, and then there are few at the bottom and a few at the top. One solution is to means-test at the bottom, where there are relatively few people, and have an affluence test at the top, where there are relatively few people, as is happening with child benefit. You keep it relatively flat in the middle, so that you are not damaging people's incentives. It costs more because you are not taking it away as quickly, but you are getting rid of this big zone.

According to the Department for Work and Pensions, we are going to have about 3 million people on 65% plus tapers and 2 million on 76%—that is a lot. If you have a zone where it is not taken away, you can get round that and do it where there are fewer people, but it does cost more.

The Chair: We need to move on to the next one. Margaret Curran.

Q170 Margaret Curran: Professor, you mentioned earnings disregards. I want to explore with you the impact that that is likely to have on people's willingness or incentives to go to work. I want to ask particularly about young people, but what is your view of the general role of earnings disregards and of the current proposals?

Professor Gregg: Earnings disregards are a very useful device to try to get people to move further before all the disincentives of high taper rates kick in. We typically have a single one for a family, so it applies to the first earner but not to the second. An interesting parameter we have always considered is whether there should be a second-earner disregard to try to overcome the problem I was just describing of the disincentives to work.

Q171 Margaret Curran: What would be the impact of that?

Professor Gregg: The idea would be that, say—I will make this up—you get 100 quid before your universal credits start to be withdrawn for the first person. Under the current system, a second person is then subject to 65% tax rates before they are earning into tax, but we

could have another system of, say, another £60 for the second earner. There is always that big incentive to get a second earner within the family, which is what you need to get out of working poverty—that was Kate Green's point. With one and a half jobs, people can get out of working poverty, so there is a value there and earnings disregards are a valuable device in that kind of mechanism.

Q172 Margaret Curran: What do you think about the proposal to remove the earnings disregard for people under 25?

Professor Gregg: I was not aware of that.

Q173 Margaret Curran: Let me ask, then, about the general policy of earnings disregard as it is proposed in the universal credit. As it stands, will this get people back to work?

Professor Gregg: Yes, I think that—

Q174 Margaret Curran: Can we fix it to be more effective?

Professor Gregg: Let us take a little step back and say that the logic here is that there are out there a range of short-houred, low-paid, relatively unstable jobs that are just not viable for people in the welfare system. If you are in the universal credit area, they are just not viable and the system is trying to make those opportunities viable. An earnings disregard is powerful in that, because that is exactly the kind of earnings we are talking about. That is the logic.

The problem, from my perspective, is, first, that the earnings are not very much—they do not take you very far up. What we have very much seen in the States for lone parents is that there are big incentives there to work a little, because benefits for lone parents are time-limited. So they work for five or eight hours, and that is your lot. They do not progress, they stay there—low-waged, low-income, relatively unstable, which is not a very attractive space, if you like. We should, in a sense, be trying to think of design features that encourage people to move out of that zone. Earnings disregards are one; jumping rules of the kind we were discussing are another. The third, which is potentially within the system, is some kind of conditionality, so that if someone is working those five or eight hours, there is still an expectation that they are looking for work with more hours.

I am not quite clear about how this is going to work—I think the details will be in the regulations, rather than the Bill—but we are opening up the territory to solve the problem of people taking but not progressing out of mini-jobs. We might try to use conditionality much more aggressively with the in-work population, which is new territory and a distinct cultural change from where we have been.

The Chair: We are running out of time, so we shall move on.

Q175 John Glen (Salisbury) (Con): Consistent with the existing capital criteria and rules for means-tested benefits, the universal credit will not be payable to those with savings of £16,000. Will you comment on what impact you think there will be on incentives for saving for families and generally?

Professor Gregg: This is one feature of merging the in-work and out-of-work benefit systems. Before, the rules were very different. Savings were treated much

more generously in the tax credit system than in the out-of-work benefit system. Putting the two together, the proposals are that we penalise saving above the limit, but also income from any savings, more aggressively than in the current in-work system.

I contrast this with the Government's logic in trying to avoid such penalties on saving for pensioners in the form of trying to get rid of the pension credit. There is a clear logic, which says we try to incentivise people to save and reduce these pension credit disincentives to save. We are penalising savings within the universal credit system more aggressively than was previously the case. The Social Market Foundation says that about

600,000 people are affected, either by the capital rule or by the treatment of unearned income. I am very unhappy with this, and I would like—

The Chair: Order. I am afraid that we have run out of time for this sitting, so I have to bring it to an end. I thank the professor for coming and apologise to any members of the Committee who have not had their questions answered.

Ordered, That further consideration be now adjourned.
—(*Miss Chloe Smith.*)

10.10 am

Adjourned till this day at One o'clock.

