

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

WELFARE REFORM BILL

Fourth Sitting

Thursday 24 March 2011

(Afternoon)

CONTENTS

Written evidence reported to the House.
Examination of witnesses.
Adjourned till Tuesday 29 March at half-past Ten o'clock.

PUBLISHED BY AUTHORITY OF THE HOUSE OF COMMONS
LONDON – THE STATIONERY OFFICE LIMITED

£5.00

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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)	James Rhys, <i>Committee Clerk</i>
† Greenwood, Lilian (<i>Nottingham South</i>) (Lab)	
† Hollingbery, George (<i>Meon Valley</i>) (Con)	
† McVey, Esther (<i>Wirral West</i>) (Con)	† attended the Committee

Witnesses

Alison Garnham, Chief Executive, Child Poverty Action Group

Fiona Weir, Chief Executive, Gingerbread

Adrienne Burgess, Head of Research, Fatherhood Institute

Sarah Jackson OBE, Chief Executive, Working Families

Fran Bennett, Member, Women's Budget Group

Nick Woodall, Policy and Development Officer, Centre for Separated Families

Sam Royston, Policy and Campaigns Officer, Family Action

Councillor Steve Reed, Leader, London Borough of Lambeth, representing London Councils and the Local Government Association

Roger Harding, Head of Policy, Shelter

David Orr, Chief Executive, National Housing Federation

David Salusbury, Executive Chairman, National Landlords Association

Duncan Shrubsole, Director of Policy and External Affairs, Crisis

Rt Hon Iain Duncan Smith MP, Secretary of State, Department for Work and Pensions

Neil Couling, Director, Benefit Strategy, Department for Work and Pensions

Terry Moran, Director-General, Universal Credit, Department for Work and Pensions

Public Bill Committee

Thursday 24 March 2011

(Afternoon)

[MR MIKE WEIR *in the Chair*]

Welfare Reform Bill

Written evidence to be reported to the House

WR 26 Shelter

WR 28 Women's Budget Group

1 pm

The Committee deliberated in private.

1.10 pm

On resuming—

Q176 The Chair: We will now hear evidence from the Child Poverty Action Group, Gingerbread, the Fatherhood Institute and Working Families. For the record, would witnesses please introduce themselves to the Committee?

Alison Garnham: I am Alison Garnham, chief executive of the Child Poverty Action Group.

Fiona Weir: I am Fiona Weir, chief executive of Gingerbread.

Adrienne Burgess: I am Adrienne Burgess, head of research at the Fatherhood Institute.

Sarah Jackson: I am Sarah Jackson, chief executive of Working Families.

The Chair: I remind 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. Time is limited, so I encourage you to be brief when you ask questions. I remind witnesses that not all of you have to answer every question if one of you can answer for the rest and if that is what you want.

Q177 Stephen Timms (East Ham) (Lab): The Bill does not tell us anything as yet about how the Government propose to support the cost of child care in the future. What would you like to see in the regulations when they are introduced in terms of what proportion of costs will be covered and what the arrangements should be?

Alison Garnham: What we are keen to see is something that closely replicates what happens now with tax credits. The original thinking in the Department for Work and Pensions was about perhaps introducing a disregard. The disadvantage of that would be that those on the lowest incomes would not get any help at all, so it is very important that a payment is introduced that closely resembles what happens with tax credits.

Many of us have been arguing for some time that the payment should cover 100% of child care costs. That is because, at the moment, it is assumed that parents can make a contribution to the tune of 20%. From April, it will be 30% because the percentage of child care costs

covered will be reduced in tax credits. We would like the percentage to be at least 80% and 90% for families with disabled children. One of the reasons why that is important is that the amount that parents have to contribute assumes that there is a shopping incentive. It assumes that there is some advantage to be had in looking around for cheaper child care, but of course, early childhood education and care are very important, and they should be of high quality and benefit the child, so there is no advantage to be gained from reducing the amount of support that families have.

One of the most important things about child care costs is that, at the moment, if you look at the universal credit calculations and if you include child care costs at about 70%, where it is now, the marginal deduction rates—the amount that you lose per pound of extra earnings—would rise to about 94% if you have one child, or 98% if you have two children. It is very important that we have a higher proportion of contribution than the 70% currently in the tax credit system.

Fiona Weir: I welcome the fact that we have heard some noises that child care costs may be extended to parents who are on shorter-hours working—under 16 hours a week. That would be very welcome to a lot of single parents who are quite keen for their first job to be a mini-job, so we are very positive about that, but not if it comes from the same size of pot, therefore reducing child care costs for other parents. Child care is absolutely crucial to making work pay for so many, so we think it is absolutely essential, if we are going to make work pay, that more money is put behind delivering the scale of investment that is needed.

On the measures that have been put in place already, we estimate that, for a single parent with two children who works full time, the drop from 80% to 70% could cost up to £1,600 a year, which is a really powerful step in the wrong direction for the purpose of the Bill. Our message is that there has to be money behind child care costs if we are to make a reality of making work pay.

Alison Garnham: One of the problems at the moment with the work that the Department is doing is that the size of the funding envelope that is available is affecting the level of support that people will be able to get. If the ceilings remain as they are now, it would suggest that the taper rate would fall as low as 60%, and, as Fiona said, the incentive to work would be very low at that level. This is an opportunity to make sure that there are very good work incentives. If instead you had a higher taper rate at about 80%, it would probably lower the maximum rates that were available from the fixed pot of money. That is a real concern. In fact, what needs to happen is for that pot of money to be expanded; otherwise, there would be a real danger that it would damage parents' work incentives.

Q178 Stephen Timms: Clause 97 of the Bill gives the Secretary of State the power to split an award where a couple is receiving it. Do you think that that power will be enough to address the purse-to-wallet concerns that have been raised around the Bill?

Alison Garnham: It is very important that there is some provision, for two reasons. There are certain types of payment that you would want to go to the main carer; for example, we would like the amounts included in universal credit for children and for child care to go to the main carer. There are other elements such as

housing costs, where there might be a case for their being made across to the person who has the liability to pay the rent. It is useful to have that provision.

The most crucial point is that, at present, under tax credits, the main carer receives all the payment. If the same thing does not happen with universal credit, it will amount to a serious redistribution of income away from main carers, most commonly to fathers. That does not reflect the kind of day-to-day budgeting that actually happens in low-income households. It is really important, including for the stability of the relationship, that the payments go to the main carer, who in many cases is the person responsible for managing family bills and so on.

Q179 Ms Karen Buck (Westminster North) (Lab): May I ask about the implications of the move to bring lone parents whose children have reached age five into the system, building on what we know has been a gradual reduction in the child's age at which lone parents are expected to go to work? First, what do you think the impact has been of the reduction so far, staged and proceeding? On the success rates of lone parent employment, what has been the mix between conditionality and incentive? Finally, what are the child care implications of those changes?

Fiona Weir: Specifically around children aged five rather than the wider questions, I think there is a particular issue around the 5% whose child aged five has not yet started school. Some protection needs to be put in place so that they are not required to work during those early, sensitive weeks. We have some specific concerns around the fact that for a lot of single parents, it is when their child goes to school that they start thinking about education, skilling up and their long-term career direction, and we are very concerned that a particular group may have those opportunities closed off to them if they are not fully protected.

In terms of the broader experience to date, we have a lot of concerns about the inflexibility of the system to deal with parents' need to be there, and to be responsible for their children. There is not flexibility in the system at the moment to deal with a child with health, behavioural or other problems. A long series of flexibilities have previously been agreed for particular circumstances which make it easier for parents to combine job-seeking requirements with their parental responsibilities. As yet, they have not been clearly laid out again in regulations, and it is not clear how many of them will be protected and taken forward. If you run through the list, from limiting working hours to school hours, limiting hours to 16 a week, what happens when there is an exclusion or parenting order, through to the domestic violence exemptions, there is a whole series of specific flexibilities for particular circumstances that need to be in the regulations that, as yet, have not been laid in connection with the Bill. They need to be protected.

Thirdly, I think we would say that sanctions are largely a red herring. We are seriously worried that were a sanction to be imposed on a family with a child, the potential consequences of doing without benefits for such a long period, even with some access to hardship funds, would be extremely worrying. We think that they are a red herring because most of the evidence base shows that we are not particularly effective at getting people into work. Most people who provide regular employability training, like us, understand that you get

people into work through affordability and availability of child care, jobs being available, particularly jobs with flexible hours, and high-quality training and support to build confidence and skills. We are particularly worried about the level of investment going in at the moment for lone parent adviser training, which all the evidence shows is crucial to the quality of support that single parents will get. We are increasingly hearing noises that that provision will be decided at district level, which again causes concern about the extent to which the support systems are really there.

We think that the Bill hugely swings the balance too much in the direction of sticks, although there is very little evidence base that they actually work, and not nearly enough in the direction of support and making the right kind of jobs available, which we know works.

Q180 Ms Buck: That is very helpful. Can I just ask one quick question—I do not know who is best placed to answer it. Given the Bill's incentive to enter work—there is a more powerful incentive to start work than to increase your hours—and the recognition of the role of mini-jobs in that context, is there any issue about the provision of child care, in particular the capacity of child care to provide cover for mini-jobs, and payment for mini-job cover, given that most child care providers will insist on sessional or full-day care?

Alison Garnham: That is a big problem with the child care industry in general. Generally, you do not buy hours of child care—you buy a session. So you buy 9.30 to 12.30, or 1.30 to 4 o'clock. It is very difficult to buy the number of hours that you need. Also, age five is a particularly difficult point for parents. Most people find that pre-school child care is much more flexible than the child care that is available once your children start school. Day one at school, you suddenly discover that the school closes down at 3 o'clock, you have to sort out the child minder picking children up, and after-school clubs. The reality is that the extended schools provision that was promised did not really materialise to the extent that everyone anticipated it would, so you also face the fact that there is a dearth of child care for school-age children. Just when you hit the crisis point in child care for age five—and at the same time hoping that your child settles down at school—you are asked to think about paid work and finding child care in order to work. I would argue that five is quite a problematic age.

Sarah Jackson: If I may add a point, not just about lone parents but parents generally, if you are working atypical hours—if you are not working 9 to 5, or if you work shifts—it can be very hard to find child care that fits. We frequently come across examples of parents who are asked by their employers to work odd shifts or extra hours at short notice. People are often threatened with losing their job if they cannot find child care to enable them to do that work. We really have to think about the interplay between child care provision and working patterns, and the availability of short, family-shaped jobs.

Q181 Kate Green (Stretford and Urmston) (Lab): I will ask some questions about the social fund, which the Government are proposing to abolish and pass to local authorities. I would like your views on how the existing system has been functioning, and how well you think

[Kate Green]

the Government's proposals will serve to replace it. Perhaps Alison or Fiona might want to concentrate on that question.

Alison Garnham: I am very worried about the proposals connected to the social fund. I never thought that I would be in a position of defending it, because it has always been seen as quite a problematic feature of the social security system: it operates on cash limits, and it is discretionary. There is a bit of a lottery around the country as to whether you get help, so there is already an issue about whether the decisions are fair. However, there is an inspectorate that checks that decisions are broadly being made in the same way.

The changes will mean that elements of budgeting loans will transfer to universal credit, and the advance payments that form part of crisis loans will also be part of an advance payments scheme in universal credit, but the remainder will go to local authorities. We have heard that the money will be sent directly to local authorities but will not be ring-fenced, and that there will be no regulations or guidance governing who gets the payments, and no independent scrutiny of how decisions are made. That is a real matter of concern, because it means that all around the country there will be different schemes, and we do not know what those schemes will be or whether it will be possible to evaluate them, because they will be so varied. We have no idea what the families that we deal with, who have problems such as their cooker breaking down, meaning that they need to go to Jobcentre Plus to see whether they can get help with feeding their children, will meet in their local area. Will it be a scheme to help with financial inclusion? Will it be a second-hand furniture organisation that is being subsidised by the local authority? It is worrying, because families need consistency and need to know where they can get the help that they need.

Q182 Kate Green: Are you suggesting that the potential exists for there not to be any cash help provided by local authorities?

Alison Garnham: Potentially. The money can be spent in any way the local authority likes. It could be spent developing schemes on financial awareness, not necessarily on giving people money. There have been various schemes, right the way back to the supplementary benefit days, which acknowledged that when you live on levels of income that are below the poverty line, it is very difficult to save up for one-off items. There has always been a scheme to help people pay for things that they need a lump sum for. It is understood that people cannot possibly save for those one-off items. If the new scheme means that there will not be any such facility, that presents a major problem for low-income families.

The Chair: I think Guto Bebb wants to come in.

Q183 Guto Bebb (Aberconwy) (Con): I am fascinated by the points that you are making in relation to the local authority situation, because the implication is that you have no trust in local authorities. Secondly, you made a point about there being no ring-fencing. Being a Welsh MP, I am aware of big complaints from local authorities in Wales that the Welsh Assembly insists on ring-fencing.

As a result there is no real local variation that responds to local needs. Surely the potential for a response that is appropriate to local needs is very strong in a situation where local authorities are allowed to pursue their own policies.

Alison Garnham: But there are a number of questions in relation to that. Will the local authority be aware of all the people on benefit, or universal credit, who will be in need of these items? They are people that the local authority is not currently in contact with. They are not people who have anything to do with local social workers, for example. It would be difficult for a local authority to work out what kind of scheme it needs to put together. With local variation, however, there will be different schemes in every area. That may mean that you get nothing in one area, where the authority has decided one thing, and something else in another. That is out of kilter with how we expect decisions on social security matters to be made.

Q184 Priti Patel (Witham) (Con): To build on that, there are clearly variations in the social fund and its impact. If awareness is low and applications and access to finance are patchy, surely going down to the grass roots and involving councils—I hear what you say about them not knowing about all the groups out there, but they will, of course, be working with the voluntary and third sectors in their community—will mean money is more targeted than is the case currently.

Alison Garnham: There will be examples of good practice, but we also have the history, which is that in the past local authorities ran schemes such as section 30 payments under the Children Act. Long ago, when I used to work in citizens advice bureaux, you used to suggest that people went and applied for that money. In one council money would be available, but in the neighbouring council there would be nothing, because it had been spent on something else. That is the difficulty. When you have families that all have the issue of running out of money from time to time and have emergencies, there may be, in some areas, nowhere to go. One of the things that we know about current social fund applications is that the most common claims are from families with children. It will have the biggest impact on families with children.

Q185 Priti Patel: On that point, it seems that fairness and access to funds are at the heart of the issue here. What is the solution that you propose?

Alison Garnham: We would like to retain some system of grants and loans, as we have currently, with a system of guidance and regulation that would allow people to know whether they were entitled to make a request for a payment. It would be difficult in other circumstances to know whether it was worth asking anyone for help. Transparency and fairness are important.

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

Q186 John Glen (Salisbury) (Con): One of the eye-catching aspects of the Bill has been the benefits cap—an overall benefits cap for both single claimants and couples. What are your reflections on the principle that benefit levels should not exceed what is available or affordable for working households?

Alison Garnham: This proposal mirrors law that existed in this country in the 1970s but was abolished. At the time, it was dubbed the wage stop, and the CPAG wrote pamphlets about it in 1970 and 1971. The problem with it then and the problem with it now is the level of people's low wages. We know that two thirds of children live in families where the parents work, so the level of wages for many families is very low and does not lift them above the poverty line. By saying that you want to limit other families' benefits to the level of wages that other people can achieve in the labour market, you create a very difficult situation, and you are actually saying that you want to suppress benefit levels below the level of their entitlement. The problem that was created in the past, and which would be created in the future, is that you would have a new group of people who for some reason were not entitled to the level that the law says you are entitled to be sustained at, because wages are so low in the economy.

Q187 John Glen: So, you disagree with the principle.
Alison Garnham: Yes.

Q188 George Hollingbery (Meon Valley) (Con): What you are saying would be entirely understandable if the level had been set at something lower than the average, but what is proposed is that the cap be set at the average household income in the United Kingdom. How does that hold down people from getting the benefits that they should require? Would you agree that the biggest flexing figure in there is almost certain to be housing costs?

Alison Garnham: Exactly, and the difficulty is that benefits such as universal credit are constructed in such a way as to respond to need. They come up with assessments about what someone needs to live on. Some people's needs are greater than others because, for example, they have a large family, or children with disabilities so their child care costs are higher, or they are reconstituted families—two separated families coming together with large needs. Those are the kinds of families that would indiscriminately be selected out to have their level of benefit reduced.

Q189 George Hollingbery: Two families live next to each other in identical houses, both with the same housing need, in a slightly more expensive part of town, and the rent, to the same landlord, suddenly goes up. One family is in private employment and the other is on benefits. The family in private employment has to move because they can no longer afford the rent. Should the family on benefits be allowed to stay there, whatever?

Alison Garnham: At the moment, most people on housing benefit are in work, so in the case of the housing benefit cap in the majority you are talking about working families, not about people living on benefits. Sorry, could you repeat the end of the question please?

George Hollingbery: I see a situation in which someone on the average household income has to move, when they are working, and someone is protected because they are on benefits, and does not have to move. I am just trying to tease out what you mean by need.

Alison Garnham: They need to have their housing costs covered in order to continue to live where they do and not be made homeless.

Q190 George Hollingbery: Or move to somewhere they can afford.

Alison Garnham: The difficulty is that the person with the high housing cost does not gain. The implication is that somehow they are benefiting from having this extra money but they are not; it is being handed to the landlord. By all means look at ways of addressing high housing costs—no one would be against that—but it is not the family concerned that benefits. It will, however, be the family concerned that suffers the disadvantage if they are made to move.

Q191 Jane Ellison (Battersea) (Con): On this important question about the principle, I just wondered if other panel members could be invited to comment.

The Chair: Does any other member of the panel wish to comment?

Fiona Weir: The main thing that we would want to say is that there has to be a slightly better way of dealing with the very clearly perceived unfairness of the extreme cases that we regularly see in the popular press. This feels like a very crude and artificial way of dealing with that. Although we entirely understand why people get upset by some of the articles that appear, they are a small number of cases, and this does not feel like the most appropriate way of dealing with something that people understandably do not feel is fair.

Sarah Jackson: From a working families perspective, please bear in mind the complexity of what keeps a family together. It's very easy to say that a family should just move, but you have to think about the child care, where it is, how people get there, the school, the person's job. I think, like Fiona, that we must be careful not to be drawn into the popular press examples.

Fiona Weir: Two key Government aims are dependent on people not having to move house a lot. Single parents are highly dependent a lot of the time on their mum to provide child care, so the moment you start upsetting those informal relations you have a real problem if you are trying to get single parents into work. Also, a lot of what the DWP is doing is trying to strengthen family relationships. If you're trying to get the other parent engaged in that child's life, the last thing you want is to end up with the single parent moving away from the other parent, because it gets much harder to get some co-operative, shared parenting arrangement going between them.

There are huge consequences for other parts of Government policy if you take decisions that have those unintended consequences. That is our biggest concern. We are seeing too many unintended consequences coming out of details in the Bill that have not been well thought through.

Q192 Ms Buck: I have a very quick question. To give a hypothetical example, would it not be more economic for a couple with, say, four children to split into two households and make two separate claims, which could end up costing the public purse more?

Alison Garnham: I think there is an incentive to split up created by this—that is right.

Q193 John Glen: Does anyone on the panel believe that a benefits cap in principle is right? Nobody. Thank you.

Q194 Anas Sarwar (Glasgow Central) (Lab): The Bill would introduce financial penalties for incorrect statements and failure to disclose information. I just wanted to hear your views on that proposal.

Alison Garnham: We would be very concerned about that. There is existing case law dealing with fraudulent misrepresentation, and the current rules are that if you misrepresent or fail to disclose a material fact, that has implications for whether any overpayment that arises can be recovered. We think those rules are pretty satisfactory, and it would make sense to carry them forward into the new scheme.

Q195 Anas Sarwar: I notice you said in a previous answer that you used to be involved with citizens advice bureaux. I wondered what your thoughts are on the impact of less funding going to advice agencies, and whether that in itself could increase the number of people who make mistakes on forms and fail to disclose information because they do not get that advice.

Alison Garnham: Absolutely. We are facing a perfect storm in the advice world at the moment. At one and the same time, we are seeing the abolition of legal aid, which at the moment contributes about one third of the funding of many citizens advice bureaux, because they have legal aid franchising contracts. Another one third of their funding is made up of funding from local authorities, and we understand from Citizens Advice that if the cuts in local authorities are passed on to citizens advice bureaux, that could reduce by as much as a half the service that they currently provide.

At the very time when we have rising unemployment, massive changes to the benefits system, and many reasons why people need to seek help post-recession, there will be fewer and fewer places where people can go for advice, including local authority welfare rights advice services, many of which have already been closed down. We regularly hear from people who are about to be made redundant. Services such as Derbyshire welfare rights, Kent welfare rights, Warwickshire welfare rights, which are all centres of excellence on advice on social security, are disappearing. That is a real concern.

Q196 Anas Sarwar: You said there is a risk of losing up to half the advice that you currently supply. Can you quantify that in terms of the number of families that that could affect?

Alison Garnham: I no longer work for the citizens advice bureaux service, so I do not have the data about how many families they see, but it will be significant.

Q197 Priti Patel: To go back to the concept of civil penalties and people providing the wrong information, there are naturally concerns among members of the public that at the end of the day taxpayers' money is involved. Do you feel that such penalties could bring some integrity to the system, and restore public confidence so that they know that money is being targeted at people who desperately need it?

Alison Garnham: The Department for Work and Pensions is probably downplaying the success it has had. It has actually done rather well in driving down the level of fraud in the system. Levels of fraud are very low. It is much lower: down to about £1 billion and much of that is error. Compare that with the situation in the tax

system, where the level of avoidance and abuse is much higher: the lowest estimate is about £40 billion. In terms of the security and integrity of the system, the DWP has been doing quite a good job.

Q198 Priti Patel: Could this go further to enhance it? At the end of the day, the public read a lot of stories in the press, and this is about ensuring that in these days when there is not enough taxpayers' money to go around money goes to the right people.

Alison Garnham: For the reason I gave, I think that the rules about misrepresentation and failure to disclose currently operate rather well. The case law is very well understood. The rules provide a right of appeal for claimants to ensure that whether they must repay the money is established in a tribunal. The introduction of civil penalties, which would possibly weigh in even without that process taking place, is very worrying. There is an issue about due process.

Sarah Jackson: Could I add a point on this? Parents are already terribly worried about the possibility of making an incorrect claim, because child care costs fluctuate. They can fluctuate wildly from week to week and month to month, so it is very difficult. Parents are very worried about over-claiming and about doing something incorrect. They will phone our helpline, and it can take an adviser more than 40 minutes to work through with the parent what their balance of work and child care should be and might be and how a claim for tax credits should be presented. There is already a real disincentive to parents built into the system. They want to get it right, and I do not think we need to make anything harsher for them.

Q199 Yvonne Fovargue (Makerfield) (Lab): There is an onus on the claimant with the civil penalties, but, in your opinion, are the majority of mistakes made by the claimant or are as many or more official error, which has no consequent penalty or redress?

Alison Garnham: That is right. The majority of overpayments are official error rather than claimant fraud.

Q200 Anas Sarwar: To pick up where Yvonne left off, the majority of errors are by the DWP rather than by claimants. Would you support a proposal along the lines of an early-warning system giving claimants an opportunity to reverse the mistake and reclaim something rather than have a straight-off penalty? Have you had any representations with the DWP on that?

Alison Garnham: Yes. One thing that people are concerned about is that, increasingly, Jobcentre Plus administration has moved to remote call centres, largely for reasons of cost. One difficulty with that is that people no longer have the face-to-face opportunity to talk through their claim locally. It is very important that, first, we have local advice services, and there is a problem with that at the moment and there will be in future. Secondly, we need to have the facility for people to discuss their case with the person dealing with it, which is difficult when they are at a call centre and you do not know with whom you are speaking. The Department will need to address that problem with universal credit, because, particularly with a new system, it is inevitable that people will not know basic things about how to

complete their form, what they are supposed to be telling you and what their advice notice means. It is important that basic work is done on how people will receive advice on those things.

Q201 Paul Uppal (Wolverhampton South West) (Con): Sorry, Alison, we all seem to be picking on you. To pick up on one specific point, you mentioned that you saw a situation in which it is much more a case of official error rather than individual claimant fraud. Is that based on anecdotal evidence from your experience or is there hard evidence for that?

Alison Garnham: It is the official figures. They are more to do with error than fraud.

Q202 Paul Uppal: Specifically on fraud, how would the DWP pick up on the numbers? What would be an effective way of doing it?

Alison Garnham: They carry out surveys. What do you mean? Do you mean how the Department would find out who is making mistakes? They tend to look at samples of cases to see what is happening on a case and find out the reason for the mistake. That kind of exercise is useful, and other than that it is about advice and support to the claimant.

Paul Uppal: For the sake of clarity for the whole panel and so there is no ambiguity on this, in terms of the benefit cap, is the general feeling that it should always be demand led in terms of individual claimants, rather than there being a limit on benefit claim?

Alison Garnham: Yes, absolutely. The whole purpose of devising a system like universal credit is that you develop an amount that is supposed to represent the minimum needed for somebody to live on. That is what the modelling of universal credit has been trying to indicate—just how well will this produce a system that can support people?

One of the difficulties is that when it was originally devised the Centre for Social Justice wanted a taper rate of about 55%, which would have been a much more generous system than the one we are looking at, which has a taper rate of 65%. So there is an issue about how much money is going into this. That will have a knock-on effect in that it affects the amount of help people will receive for child care costs, and as I have just said, that is crucial to determining whether people will be better off in work.

It is also affecting things such as whether it is worth a second earner in a couple taking a job. We know that the marginal deduction rates for second earners will be particularly poor, which is very worrying for a number of reasons, partly because of women's independent income—because of who needs to spend the money on the children, but also because families change. For example, when someone becomes a lone parent, if they have never worked, it is much harder at that point to try to get into a job. You are asking the DWP to make a big effort to get those people into work, when in fact if they had already been working, they would have been in a position to support their family better when they became a lone parent. So the issue of a second earner is another question that must be taken into account, and probably could be addressed by something like an additional disregard.

These matters reflect the fact that the overall funding of universal credit is not quite generous enough to show the improved gains from work that it wants to offer. We can appreciate that that is clearly the intention, but it needs more money to be able to do that more effectively. At the moment, when you do the calculations there are a lot of people who still have very high marginal deduction rates, even under the new model, so we would argue that the funding envelope needs to be looked at again.

The Chair: We move on to the next question: child maintenance.

Q203 Julie Elliott (Sunderland Central) (Lab): I have two questions on the child maintenance part of the Bill. First, part 6 introduces procedural hurdles to assessing the statutory child maintenance system, with a view to encouraging more voluntary child maintenance arrangements. Do you welcome the new emphasis on voluntary arrangements and mediation?

Fiona Weir: We are generally very supportive of a lot of what the Department is trying to do in encouraging greater collaboration between separating parents, and we hope to work with them constructively as part of this consultation process to see what that additional support might look like.

The problem is that people who reach voluntary arrangements tend to have particular characteristics. They tend to be better off and to have quite amicable relations. They are more likely to be in work and the father is more likely to be engaged. There is a considerable number of single parents out there who are just not able to make private arrangements, for whatever reason. In about 30% of cases they just do not know where the other person is—they cannot trace what is usually him. They often have poor or difficult relations with that partner, and sometimes that partner is refusing to pay, or has said that he will not. In some cases they simply give up because it is too difficult, or because they have prioritised the contact arrangements as the more important issue to settle. In many cases, they need the statutory service to be there.

A series of procedural barriers is being introduced. First, initially, you have to go through a gateway and demonstrate that you have considered and thought through private arrangements. We are not exactly sure what that looks like, and at what point you have demonstrated it. You then have to go through the additional burden of the charging regime, which is a huge problem, and we know from a number of surveys that it will put single parents off. It does not sound like a lot of money to many people—£100, or £50 if you are on benefits—but if you are a single parent in a poorer household you spend about £43 a week on food and about £48 a week on rent. Those are really significant costs and they are big psychological barriers to people, especially people who have had pretty poor service from the Child Support Agency for a number of years. So, erecting yet another big barrier at exactly the point when we are about to launch a new commission, when a massive amount of public money has been invested in a new system that ought to be much better and ought to be lower cost, and when you want to get it working effectively and re-establish that reputation with the parents it is there to serve is the last thing you want to do to its usage.

[Julie Elliott]

While we would like to support a lot more collaboration, we think that the Government are being naively optimistic about how many separated parents really can overcome the genuine difficulties between them and manage to establish private arrangements. The upshot of all those barriers could be that fewer people use the statutory service that they need, and that means less money going to children.

The maintenance payments make a big difference if you are on benefits. If you are on a low income, even a fiver a week makes a difference to whether your kid can be in the football team or go swimming, and £20 a week makes a very significant difference to what your children can and cannot do. I think there is a huge inability to grasp how much tangible difference quite small sums of money can make to the lives of people who are on very low incomes. That has led, to some extent, to a devaluing of the importance of those small sums of money, not to mention the key fact that this is also about parental responsibility.

The Bill is riven with the language of responsibility. The whole welfare to work debate is very much around that, yet when it comes to parental responsibility for payment, we risk undermining what has been a significant effort to try and improve the system that starts getting all fathers paying. At the moment, after the years we have put into this, the levels of child maintenance payment remain shockingly low.

Q204 Julie Elliott: Would Adrienne, Sarah or anybody like to comment on that question?

Alison Garnham: What is at risk here is that, by deterring lone parents from using the state scheme, it is missing the point that there is a public interest in children being properly supported by both their parents. We know that even small amounts of money can make a big difference to whether families are lifted out of poverty. We also know that having regular child maintenance—the regularity of payment is key, not necessarily the amount—is strongly implicated in whether a single parent is likely to be in paid work or not.

Those things act together to make a very important public interest for a properly funded state child maintenance scheme. In the countries where they do that best, they understand that there is an investment needed. In places such as the Nordic countries, which everyone always refers to, they have guaranteed maintenance systems where they pay child maintenance up front to single parents, and then they recover it from the non-resident parent. We are putting it all back to the individual parent and saying, “You chase it. You go in for an informal agreement”. Of course we want informal agreements to work. In the past, when people were forced to use the CSA, that was wrong and was not successful, so it is good that that has been retreated from. Nevertheless, there needs to be a strong and properly funded state system.

Adrienne Burgess: From the Fatherhood Institute point of view, it is incredibly important that men pay child support. We have been very disappointed to see that the joint birth registration has been scrapped, because that is the point at which you start to identify the men and help them see themselves as fathers. That is very important, particularly among these groups of fathers.

What we are very interested to see in the statistics, now that we have statistics, is that even among teenage mothers 78% joint register the birth with the father. Of their birth partners—almost all teenager mothers have birth partners, of course—90% are the father of the child. So these guys are around there right from the beginning. Whether it is enforcement, or however it is or whatever it has to be, I understand the desire to help people make their own arrangements. I understand the fact that you want to make the bar higher so that those who can go for agreed arrangements do so, and it is very important to me that the enforcement of child support is really strong. So, putting too many barriers in the way may have an unintended consequence. However, one way to look at that would be to do what one has to do and then monitor and evaluate it, so that we see what is really happening rather than being scared about it.

Q205 Priti Patel: I would like to make a comment, and then ask a question of all members of the panel. One of the saddest aspects of the casework and constituency work of most Members of Parliament is when broken families come to you in need of support and state help.

On the point about seeking voluntary agreements, it is quite obvious that there are many system breakdowns somewhere out there—families split up and access to payments is highly problematic in many cases. I would welcome views from all panel members about practical steps to encourage parting couples to come together in a grown-up, adult way to find the right kind of voluntary agreement, as that will be in the interests of their child.

Alison Garnham: You might need to go a step earlier—to what happens when people are together. One of the issues about child maintenance is that, if there has not been much transferring of money from one partner to the other within the relationship, it will not happen outside the relationship either. You are trying to deal with something that may be a problem from the previous relationship as well.

Obviously, there is more that can be done on relationship support and advice to people about how to come to amicable arrangements. As Fiona said, we know that there was always a group of people who reached amicable arrangements, which were working really well and people wanted to leave them as they were. The problem was always the ones who did not and could not reach an agreement. Again, the legal aid situation kicks in—legal aid for family issues is to be abolished, so there will be even less help available for those families in reaching agreements, particularly when one partner is reluctant.

Q206 Priti Patel: On that point, is this all about after the event, or is it educational awareness much earlier on—not just when relationships are being formed at school and so on, but financial responsibility and personal responsibility?

Sarah Jackson: I would say this is a very interesting example of where the world of work, the world of welfare and the world of family well-being all overlap. It is a very good example of how important it is to make sure, right from the start, that fathers have rights to paternity leave and to parental leave, because we know that the more engaged fathers can be in the first year of life, the longer living the relationship is likely to be. Although this is outside the scope of the Bill, it is very

important to look at what we are going to do to support fathers with independent rights to ensure that they can be fully engaged in family life.

Adrienne Burgess: I would add something that brings us back to the Welfare Reform Bill—this old-fashioned thinking about divided gender roles. We talk about “the main carer” and the “other” person. We have individual taxation, and people can live together and be individually taxed, but we have this split—as soon as it is about benefits, we talk about “a carer”, as though the other one does nothing.

What tends to happen—this is central with separation and divorce—is that when the man goes for jobseeker’s allowance, whether he is living with the woman or not, or living secretly with her or not, he is seen as a single, childless man and not as a father at all. That means that there is no way that we can work with his fatherhood in the jobcentre. We know from lots of good practice that if you work on men’s fatherhood at the same time as you work on their job-readiness, and help them to build relationships with their children and see themselves as valuable, it has positive spin-offs in their getting and staying in employment. It is not separate, yet the whole thing treats it as if it is.

Going back to the fact that the Welfare Reform Bill discourages the second earner from earning, that is terrible because it again sets up the idea of divided roles, as if her earnings do not matter. We know that where both partners work, relationships are more stable. Where there is a more gender-equal operation of earning and caring, relationships are more stable.

Q207 The Parliamentary Under-Secretary of State for Work and Pensions (Maria Miller): It is easy to paint a picture that parents, especially fathers, do not want to take responsibility, but we know that more than half the people using the current statutory system would like to make their own financial arrangements, but do not think they can at the moment. Will panel members give us one example of how we might improve the current system so that those people who would like to stay outside the statutory system can do so?

Fiona Weir: As part of the family justice review, there has been a lot of reviewing of some of the interventions that can be very helpful when parents separate. One thing that is clear is that, if you can catch them early enough, some of the parenting information programmes that are out there at the moment can make an enormous difference, because the parents are often not thinking things through properly from the children’s point of view. When they understand the impact they are having on the children, it can help them to work much harder at containing the acrimony. Making much more of that kind of support available is important.

Q208 Maria Miller: Are there any other responses from other panel members?

Adrienne Burgess: We are looking into charting the father’s journey—for Maria, actually. We are researching to find out where the men go because we know they are not getting the information and being engaged with early enough.

The Chair: We will have to draw things to a close as we have run slightly over time. Thank you very much for your evidence.

2.2 pm

Q209 The Chair: We come to our next set of witnesses: the Women’s Budget Group, the Centre for Separated Families and Family Action. I understand that Fran Bennett has been delayed on a train, but I hope that she will be with us shortly. I invite the two witnesses present to introduce themselves.

Nick Woodall: I am Nick Woodall, from the Centre for Separated Families.

Sam Royston: I am Sam Royston, policy and campaigns officer with Family Action.

Q210 Stephen Timms: I would like to ask about provision for support for child care costs. We do not yet know how the Government propose child care costs will be supported in future. What do you think the arrangements should be? Should there be support for people who work less than 16 hours a week, as well as those who work more than that? How should child care payments be made and to whom? What proportion of costs should be covered?

Sam Royston: I normally start answers to this question by setting out what the system is at the moment, because it is so poorly understood. At the moment, households can in some cases receive up to 97% of their child care costs through the benefit and tax credits system. That is through a combination of the child care element of working tax credit and disregards from housing benefit and council tax benefit. It will not be possible to replicate that system within the universal credit because of the way in which different benefits are being brought together into one package.

From what we understand, proposals for dealing with child care costs are either to introduce it as a disregard, which I understand the Secretary of State has now moved away from, or to introduce a child care element similar to the child care element of working tax credit. If a similar amount of money was put into the system as there is at present, it would seem very unlikely that it would be able to cover 97% of child care costs for an element of that sort, because of how the money would be distributed across a wider set of households.

As a result, from what we have heard, the Government are looking at substantially reducing what some households—particularly the lowest-income households, who are in receipt of housing benefit and council tax benefit—could receive in terms of help with child care costs. We have heard 70%, or even 60%, suggested. If a child care element of 70% was introduced, that would leave some households paying 10 times more towards child care costs from their own pocket. From some of the calculations that we have done, that would leave households that could otherwise be better off under the universal credit being substantially worse off. That is a huge worry in terms of promoting work incentives, particularly for lone parents.

In terms of who it should be paid to, we certainly agree that one of the big benefits of the universal credit is incentives to work less than 16 hours. We would certainly support extensions to household working under the hours threshold. We also think that there should be some additional recognition of the additional costs of child care for disabled children. As for how it should be paid, we agree with what the Government now seem to be considering, which is an additional child care element, but we think it needs to be substantially in excess of 70%.

Nick Woodall: It is fair to say that this is not an area in which the Centre for Separated Families has any great expertise, except to say that when families separate, there can be quite a disruption to the organisation of the family. Certainly for people who may not have been in the labour market to get back into work, or for people who may need to change their working patterns, child care costs can be extremely important. We urge the Committee to think about the potential for child care costs to reflect the responsibilities that each parent has after family separation, and the potential for supporting both parents in their child care obligations.

Q211 Ms Buck: On the same point about child care, the proposal is to reduce still further the age at which lone parents will be required to go into work, so their oldest child is five. What are your views on the effectiveness, advantages and disadvantages of the way in which conditionality has been introduced to date? What do you think about the balance between sanctions and incentives and its effectiveness? What might be the characteristics of parents of five-year-olds who might require particular treatment?

Sam Royston: One thing closely related to child care issues is that if, as appears to be the case, help with child care costs is to be reduced, we need to be extremely careful about bringing in additional conditionality, and extremely careful that parents are not put in a position where they either have to lose money by moving into work or face sanctions.

It should always be the case that people are left with one option or another. That is one of the concerns about the introduction of a cap on benefit receipts. Some parents—particularly parents with large numbers of children who require high levels of child care costs, potentially above any cap on child care costs—will potentially be left in a situation where, out of work, their support is limited to £500, which could be very punitive. Alternatively, they might have to move into work and could in some cases be no better off because they would be paying extremely high child care costs, perhaps £500. They would be paying very high proportions of that from their pockets.

On conditionality and the way that support is offered, nobody should be put in a position where they could be worse off by moving into work. They should not be stuck between a rock and a hard place. That is my fundamental concern.

Q212 Ms Buck: What do we know about the characteristics of the group of parents who might be losing the child care support that they would have been getting before the proposed reductions?

Sam Royston: The group of parents who would be getting—

Q213 Ms Buck: Do we know anything about their characteristics? Do we know that they are larger families? Do we know that they are geographically concentrated in particular areas? I am asking about the people who at the moment might be getting, for example, 97% of support because of disregards.

Sam Royston: One of the things that I said was that the households with the highest proportion of child care costs will typically be the households that are least

well off. Housing benefit and council tax benefit tend to be withdrawn at a high rate, so once you are in excess of a low to moderate income you are unlikely, except in areas of very high housing costs or if you have a very large family, to be receiving help with housing benefit and council tax benefit. Yes, changes in child care costs would be particularly focused, it seems, on those households, because they are the ones receiving the most at the moment.

Q214 Ms Buck: Lastly, this is a question that I asked CPAG. Do we think that the issue of encouraging people into mini-jobs might raise questions about child care support, in particular because child care tends to be paid for on a sessional or daily basis? Child care providers will perhaps require a top-up that might not be covered within the provisions of child care support.

Sam Royston: That is an interesting point. One of the things that we have discussed with the DWP is the potential to try in some way to encourage child care providers to move towards hourly-based provision. It is not just with mini-jobs. At the moment, if you are encouraged—in some cases, it can be quite firm encouragement—to take on an extra shift, the session of child care that you have to pay for to get that might not line up at all and could lead to your being substantially worse off, even under the current system but perhaps particularly under universal credit. The person in question might have, essentially, to pay for excess child care. That system would be much better, in my view, if you could move more towards an hourly-based system, so that child care providers were much more flexible about how parents took up child care.

Q215 Ms Buck: Do you have any sense of how the sector and providers might be able to accommodate that? They have some difficulty with sessions as it is.

Sam Royston: I think that you would need to ask them.

Q216 Margaret Curran (Glasgow East) (Lab): Can I just expand a little into a slightly different category? It is about your point, Sam, about the calculation of being better off. Do you have any insight to share with us on people's calculations about free school meals, and on the current proposals about that and how they would impact on families?

Sam Royston: Free school meals is a very interesting one. We have been working with a number of groups that have concerns about how free school meals could be introduced under the universal credit. At the moment, free school meals will typically be withdrawn at the point at which a parent moves into full-time work, which for benefit purposes is typically 16 hours. Happily, or to an extent happily, that coincides with the payment of additional working tax credit, so although they lose free school meals they gain working tax credit, which means that the benefits of moving into work are reduced but they still would not typically be worse off by moving into work at that level.

Under the universal credit, because of the proposals, which we very much welcome, to introduce a smooth transition into work during which there is no massive increase in income—you get an gradual increase—withdrawal of free school meals at any one income

point would create a substantial cliff edge, as it is known in the benefits world. It is called a cliff edge because that is what it looks like on a graph. As your earnings go up your income gently goes up, and then it shoots down because of the notional cost of the school meals—you have to pay for school meals after that point.

We are very concerned that an income threshold could be introduced into the benefit system, over which you would no longer be entitled to help with school meals. Calculations that we have done suggest that if you introduce that, supposing that free school meals for a three-child family are worth about £1,000 a year—that seems a fairly accurate estimate—it could lead to a gap of about £4,500, and people would be worse off having that income than if they had a lower income. If you earn £9,999 and at £10,000 you would lose the help with school meals costs, if you have three children in school you will be worse off until you reach about £14,500. That is very odd.

We have talked about the need to introduce some kind of smooth withdrawal on free school meals. We think that one possible way of doing that is this. A lot of schools already use cashless systems for payment of help with school meals costs. We wonder whether, instead of providing the full help with school meals, you could provide a tapered amount paid into the account that the children could then use in their school to help with the cost of their school meals. The parents could top up the additional help they need.

Q217 Guto Bebb: On the specific point about free school meals, we are aware that there is a potential for a cliff edge, but all that you have said is conjecture at this point in time, because there is nothing in the Bill that illustrates any of the points that you are making.

Sam Royston: The universal credit White Paper seems to suggest that—

Q218 Guto Bebb: But there are no actual figures that indicate when the cliff edge would be.

Sam Royston: No, but wherever the cliff edge is, there will be a cliff edge. It does not matter exactly which income threshold is used. Any income threshold will mean that people over that threshold will lose money.

Q219 Guto Bebb: Would you be in a situation to advise the Committee on what sorts of procedure you would put in place to avoid that?

Sam Royston: That is why I was saying that I think that there are mechanisms by which you could have a smooth withdrawal of help with free school meals. Potentially, you could add the school meals on to a card, which a lot of children in school already have, and the amount of help with school meals on that card would reflect household income. As your household income increased, the amount on the card would be reduced, and the parent would top up that amount so that they could pay for the school meals.

The Chair: We will move on. Kate Green.

Q220 Kate Green: I am asking questions about the social fund, which the Welfare Reform Bill proposes to abolish and replace with a system of local authority

support. Can I ask for your comments on how the current system has been functioning and your views of what the Government propose to replace it?

Sam Royston: I think that the system until now has not been without problems. In particular, we actually quite welcome the movement towards payments on account to replace crisis loans as alignment payments and interim benefit payments. We know that some families can be bounced between one and the other and never be quite sure what they are meant to be getting, although we are not quite certain that now is the right time to make that move, because of potential problems with the IT system for universal credit, which is as yet untested. It would be moving that final safety net into universal credit.

As for the other parts that are essentially being moved to local authorities, a certain amount of unring-fenced funding will be given to local authorities to distribute using powers they already have, as we understand it. We are concerned that at a time when local authority cuts are being made, money could just be used to fill gaps in expenditure that local authorities have already made.

I was saying to someone the other day that if I were the chief executive of a local authority, I would be very tempted to use unring-fenced funding to prop up services that I knew were being cut. I would not want to make anyone redundant and produce a new service to replace it. I am very concerned that it could essentially mean that there is no social fund or equivalent provision available following the localisation proposed. The current system is imperfect, but at least there is a system. I am very concerned about that.

The Chair: I encourage shorter answers, if possible.

Q221 John Glen: On that last point, what about the counter-balancing effect of local democratic capability? It might not be universally the same, but it delivers the principle that elected people are accountable for the allocation of those funds. If they see circumstances in which the fund is not being allocated properly, surely there is local democratic accountability to suit local needs.

Sam Royston: That is a really good point. Were it ensured that the money was spent for the current purposes of the social fund within a local community, I could be with you. Transferring the money to local authorities to provide those crucial services, those crucial grants and loans that families need in emergencies, would give them that flexibility. It would mean that they could spot a gap in provision in a certain area and respond to it locally. That is not necessarily the problem. The problem is that at a time when local authority funding is being substantially cut, asking, saying or advising the authority to produce a new service is unlikely to produce that new service.

Q222 John Glen: The point is that it is a risk; it is not an inevitable consequence.

Sam Royston: It is not inevitable. Nothing is inevitable, but it is a real risk.

The Chair: Let us welcome Fran Bennett, who was unfortunately delayed by train problems.

Fran Bennett: I apologise. There was a fatality.

The Chair: Do not worry. The first question about universal credit will be of particular interest to you, so I will ask Mr Timms if he would like to pursue that.

Q223 Stephen Timms: I want to ask about clause 97. It amends the Social Security Administration Act 1992 to give the Secretary of State the power to decide which partner should receive a payment—or any part of that payment—in cases where benefit is awarded to a couple jointly. Are you confident that that provision addresses the concerns raised by you and a number of others about purse-to-wallet redistribution of income?

Fran Bennett: I am afraid I do not yet know what that clause would mean in practice. As I understand it, it deals particularly with cases in which one partner either refuses to maintain the other and any children, or is incapable of doing so, such as in cases of addiction. I understood that the power to direct payment was in part to deal with that issue. There could also be cases where a sanction is applied to one person. In cases of joint claims for jobseeker's allowance, as I understand it the claim can then be paid to the other person. I am not party to the mind of the Secretary of State, so I am not quite sure what the clause is intended to cover.

The particular issues that have concerned people are the money for children and child care costs, which is currently paid to the main carer, and the money for housing costs, which is currently paid to the tenant under housing benefit. Mortgage costs are currently paid to the lender, but might in future be part of universal credit. Those issues have been of particular concern. The major issue is the fact that universal credit subsumes so many other payments. If that is all paid to one person, it becomes a much more significant decision than it would be under current circumstances where different benefits are possibly paid to different people. That is the major issue.

Q224 Stephen Timms: Do you think that the clause could provide a solution to those problems? What should the solution look like in your view?

Fran Bennett: I am not sure that the Secretary of State's direction is the right way forward. I have not looked at it in detail, but I understood that people were considering alternatives to that kind of provision.

Nick Woodall: We have concerns when we look at things such as child tax credit that can currently only be paid into one household, because that does not always reflect the levels of caring. We are talking about the parent who has the greatest responsibility for caring for the child—the main carer.

In some circumstances, parents choose to work together equitably for the care of their children, but the financial aspects of that are not reflected in the way the system works. Parents can go to court and get a joint residence order. They can work on a 50:50 basis, but come out of court and find that all the tax relief and benefits are paid to one parent to the exclusion of the other. That can upset what would otherwise be equitable and workable collaborative parenting arrangements.

The Chair: Okay. We will move back to question 4, on the benefit cap.

Q225 John Glen: The benefit cap is probably one of the most reported aspects of the proposed legislation. The Bill introduces an overall benefit cap for single claimants and couples. Could I ask for your comments on the principle of introducing such a cap? If you have any concerns, could you explain what they are?

Sam Royston: In terms of the underlying principle, the benefit cap is something that I think should work, but it should work at the moment. People should not be worse off in work than they are out of work. It should always be the case that you promote work incentives, and that when people move into work, they are better off. We would totally support that principle.

Unfortunately, that is not what the benefit cap does. As proposed, it bases the amount that you can get out of work on average earnings across the country for any household size, but we know that different household sizes in different areas of the country have differing levels of need and therefore get different amounts of income, both in and out of work. Fundamentally, it should be the case that within any region, within any local area—say a broad rental market area—for an equivalent household size, a household should not be better off out of work than in work, but that is what the current system does.

We do not think that there has been nearly enough emphasis on the fact that households in work can get benefits. If you get benefits, it can top up your money so that it means that in work you can get as much as the equivalent household out of work would get. The key concern is that different household sizes in different areas of the country require different levels of income, but the benefit cap does not appreciate that.

Our core concern is that the benefit cap introduces a couple penalty into the system—a substantial couple penalty on a level that has not previously been seen in the benefits system. Say you have two lone parent households that are both out of work with three children each, and each is entitled to £400 of benefit income. Out of work separately, they would not be affected by the benefit cap. If they moved in together and, as a result, found a cheaper property, they might be entitled to, for instance, £700 of benefit. As a couple with six children who moved in together, they would lose £200 a week, whereas, living separately, they would lose none of their benefit income.

In addition, by living together, they are likely to save the Treasury money because running two separate households is likely to cost more than running one together—that is why I said £700 rather than £800. It seems odd to introduce a couple penalty of that size into the benefits system, which is what the benefit cap seems to achieve.

Q226 Harriett Baldwin (West Worcestershire) (Con): I believe that about 2 million couples described as “couples living apart” are currently on benefits in this country. I understand that universal credit will consider the whole family unit and create better incentives for those 2 million couples currently living apart to live together. In the light of what you were just saying, can you give us an idea of the number of couples that you think would fall into the category of having six children?

Sam Royston: No, that is obviously a very theoretical question. I do not know which couples are currently living apart. I suppose that it might be possible to do

the quantitative analysis to show how many couples were formed from two lone parent households on that basis—so how many couples would be better off if they separated—but I do not have the data.

Q227 Harriett Baldwin: Currently, 2 million couples are estimated to be living apart, so I wonder about the number of couples that you were describing as being affected by the benefit cap. Do you think that it would be higher or lower than 2 million?

Sam Royston: I do not know. The underlying mechanics is really what I deal with, rather the overlying number of people affected.

Q228 Harriett Baldwin: Do you think that it could be higher than 2 million people?

Sam Royston: I have no idea—sorry.

Fran Bennett: One of the issues about the payment of universal credit to one person in the couple is a similar concern and may be an underlying reason for those couples living apart, because if they are means-tested when they come together, their assets and resources are joined together and tested in that way. Once universal credit is brought in, if the payment is all made to one person in the couple, the decision to move in with someone is an even bigger one—it ups the game—because your partner may get all the means-tested income in the household paid to them. That means losing your economic independence, by moving in with a partner. So it appears to us that there may be a disincentive to doing that.

Q229 Harriett Baldwin: With couples with children, are there any benefits to the children if the couple live together, rather than apart?

Fran Bennett: Clearly, if you have a harmonious couple relationship, that is wonderful for children, but the issue that I can see is that it is less likely that you have a harmonious couple relationship if one person gets all the resources.

Sam Royston: May I make a brief additional point that refers back to a point that I made earlier about parents who may be stuck either facing the benefit cap or exceedingly high child care costs? I just do not know what a parent who would face either £500 of child care costs or having their benefits, which might be £700, limited to £500 would do. I have no idea what they are meant to do. They cannot escape the benefit cap. It just does not make sense to work in those circumstances, because there are caps on the amount of help with child care cost that you can get. So they are really going to be caught between a rock and hard place.

The Chair: I think that you have made your point on that one. We will move on to civil penalties.

Q230 Priti Patel: I think that we are all very mindful that the household circumstances of lone parents and separated families change frequently—far too frequently than they might like. I would therefore welcome the panel's views on the whole concept of financial penalties for incorrect payments and failures to disclose information about changing circumstances.

Fran Bennett: There are already penalties for fraud in the system. Those penalties are being increased, and I do not think that we need a civil penalty in addition.

Sam Royston: I basically agree with Fran. I think that there is far too much emphasis, unfortunately, on what the claimant needs to do, rather than on what the Department for Work and Pensions and Her Majesty's Revenue and Customs need to do, certainly at the moment. There is so much error in the system at the moment that far more emphasis is needed on what DWP and HMRC do to make things right when things go wrong and a bit less on what claimants need to do. Claimants need to be mindful of their responsibilities. They need to make sure that, to the best of their ability—remember that, in many cases, you are dealing with very vulnerable people—they give the right information and keep it up to date. But the Government and the DWP and HMRC need to take a bit more responsibility, too, because there are such high levels of error at the moment and so many problems and so many people faced with really serious problems with their benefit payments as a result.

Fran Bennett: Particularly when people are getting together and living together in a new relationship, it is quite difficult to know certainly when they become what would be considered to be a couple and make a joint claim for universal credit instead of another claim. It is particularly difficult for people when they are establishing a new relationship.

Q231 Priti Patel: Obviously, the universal credit seeks to simplify the system in a significant way. Do you think that will go some way to reduce errors? Therefore, it will not feel as pressured as you suggest for individuals.

Nick Woodall: We do not have a view on that.

Fran Bennett: They are still going to have to report, as I understand it, similar changes of circumstances, as they do at the moment. It is just that there is an integrated payment rather than separate ones.

Q232 Jane Ellison: It goes without saying that we all appreciate the difficult situation people often find when their circumstances change, they are under stress and all that. Allowing for all of those caveats, I am sure you would accept there are some people who perhaps are not making the best efforts to disclose the right information. It is fair to assume there must be some element of that. You both just said that you do not think there should be a financial penalty. Turning that statement around would be to say that there should be no financial penalty for telling an untruth.

Fran Bennett: There are fraud penalties.

Q233 Jane Ellison: That is the implication of saying that you do not think there should be a new financial penalty; saying there should be no financial penalty.

Fran Bennett: No, it is not. We are saying that there are already sufficient criminal penalties and fraud provisions, and we do not think a civil penalty is needed in addition to those current penalties that are very draconian. That is what I am saying; I should not speak for Sam.

Sam Royston: That is a very reasonable point.

Q234 Jane Ellison: I have a follow-up point. From your point of view—I realise the organisations you represent—do you ever give consideration to the wider buy-in of the general public about how welfare works? How do you think things such as your opposition to that clause affect people's confidence in the system?

Sam Royston: I certainly do. We have a very high number of families, but we must not distinguish between benefit claimants and the wider general public, particularly for tax credits.

Q235 Jane Ellison: I was not.

Sam Royston: We have a large number of families who know well indeed what it means to be faced with an error in their tax credit payment, in their benefit payment. That means paying back a very large amount of money in some circumstances, and sometimes due to no mistake on their part at all. Over the past seven years, a lot more people in the general wider public have a lot more sympathy towards people who are faced with problems in the benefit system. I hope that those experiences will show. I expect they are coming into your constituency surgeries, and will give a sense of the importance of ensuring that those errors do not happen, and that the benefit system treats people with the sympathy and respect that they need.

The Chair: We will move on to child maintenance.

Q236 Sheila Gilmore (Edinburgh East) (Lab): One of the provisions of the Bill is to introduce new arrangements, or new hurdles, for getting statutory child maintenance. One is about putting in an extra stage of trying to get people to go through mediation. There is also the question of financial hurdles if introducing charges for the applicant parent—the parent with care—as well as perhaps the other parent. It has been suggested that charges should be added to the collection process. What are your feelings about that? I appreciate that some of it is still out to consultation.

Nick Woodall: While the proposed changes to child maintenance that require primary legislation are contained with the Welfare Reform Bill, it is important that we recognise that child maintenance is not a benefit. Child maintenance is not, as it is often popularised, a poverty issue either. Child maintenance is essentially a parenting issue. It is about how both parents are going to continue to discharge their responsibility to their children after they separate. We certainly welcome the idea that this is cross-departmental, that the Government are beginning to see child maintenance in its wider context.

Parents themselves are best placed to make their own arrangements for their family. They can reflect in any maintenance arrangements the nuances and complexities in their family system. We believe that the state's role is to encourage and empower parents to be able to make their own private arrangements. The state should get involved only where parents cannot or will not make such arrangements.

In his 2006 report, Sir David Henshaw recognised that arrangements that parents made for themselves lasted longer, and there was greater compliance and flexibility further down the line. His overall vision for the changes to child maintenance was about encouraging people to move away from using the statutory system, which was inflexible and caused greater division between parents, and encouraging them to make their own arrangements.

Henshaw saw that you needed to change the environment that caused the statutory system to be seen as the default option for parents. When parents were separated

and there were high levels of distress and anxiety, they often initially looked around for what they could turn to. The child maintenance system, the statutory system—the Child Support Agency—was seen as that default option, and in many ways, it still is. He argued that something should put the brakes on parents, so that they reviewed the situation and were given the support, encouragement and information they needed to be able to make their own arrangements.

We think that the measure is a step further from what the previous Government did under the 2008 Act. It asks, “How do we do this? What can we put in place that will support parents around the wider issues?” The issues that prevent successful child maintenance arrangements are not always related to child maintenance; they are related much more to emotional problems, to housing and to a range of other factors. What can we do to support parents? We believe that the proposals will begin to help.

The charging is a bit of a red herring. In the figures that show the people who are affected, 16% of those who are using the statutory system would pay no more than 35p a week, 40% would pay no more than 70p a week—that is at the lower end of the Government's proposals. We need to look at the measure in its widest context.

Fran Bennett: I cannot speak on behalf of the Women's Budget Group on this, because we have not included it in our evidence. Personally, I would have concerns about charging, and I think that a lot of lone parents who have their children resident with them would find that rather difficult.

Q237 Sheila Gilmore: From my experience as a family lawyer, in the vast majority of cases people made their own arrangements. I do not recognise the scenario that you are painting. Parents made such arrangements with assistance through a legal agreement, which would be binding. Certainly, in Scotland, such an agreement would be equally as enforceable as a court order, which you could no longer get. Clearly, however, in some situations there is a power imbalance or there has been a difficult relationship. Is that not very difficult for people?

Nick Woodall: I absolutely agree. The section 6 repeal was a huge step forward, because it stopped forcing those people who were capable of making their own private arrangements into the statutory system. But yes, absolutely, some relationships make it extremely difficult—or impossible—for parents to make private arrangements. But they are the minority.

I guess we would say that it is about time that we stopped making legislation based on minority experiences and looked at the wider cohort of separated families. What is going on out there in the world? We find that the majority of parents want to do the best things for their children and they want to make private arrangements for them, but they struggle to know how to do so. The proposal is that there will be a gateway that puts the brakes on people using the statutory system, but something will come underneath that to say, “Here's a range of services, some information and some things that will help you make those private arrangements.” When we look at what is out there already, there are some very good things, but our concern is that there are also some things that are not so good. We need to be careful that

we do not signpost people—

The Chair: I am afraid that we have run out of time for this session. I am sorry to cut you off mid-sentence, but we must move on. Thank you for giving evidence to the Committee this afternoon.

2.45 pm

The Chair: Councillor Reed, you represent the Local Government Association and London Councils. Could you introduce yourself briefly to the Committee?

Councillor Reed: You did a good job of it then. I am Councillor Steve Reed. I represent both the Local Government Association and London Councils.

The Chair: The first question is from Stephen Timms.

Q238 Stephen Timms: I have two questions on the Government's proposals on universal credit. First, we do not yet know how housing costs will be assessed under universal credit. How, in your view, should they be dealt with in a centralised system but still reflect the different rent levels across the country? Secondly, on council tax benefit, the Government have decided to go the opposite way, with the devolved scheme design and payment to local councils. Do local councils welcome this instance of localism? How would councils respond if some constraints were placed on how they would be able design their council tax benefit schemes to prevent undermining the work-incentive gains of universal credit?

Councillor Reed: The key point is that the current proposals do not take account of the different levels of cost that people experience in different areas. There needs to be some element of area cost adjustment. I will give you some examples from London. The cost of child care is 40% more expensive in London and the south-east of England than it is in the rest of the country. Public transport costs are £10 a week more in London than elsewhere. The cost of moving into work from unemployment is £150 a month more than for the rest of the country, and accommodation costs are 51% higher.

If there is no area cost adjustment element in the proposals, the effect of the benefit caps, particularly on housing, will be that people who are in low-paid work, or who are unemployed but seeking to move into work, will be forced to move out of areas where there are social networks that help to support them and, perhaps more importantly, where there are more job opportunities. People will be pushed into areas where they are less likely to get work. That could have the unintended consequences of increasing the cost to local authorities of homelessness and keeping people who could have moved into work out of work. It is very important that area cost adjustments are included in the Bill if it is going to have the effect that we all want to see, which is ensuring that anyone is always better off in work than on benefits. I think there is a perverse and unintended disincentive in the proposal. Sorry, what is your other question?

Q239 Stephen Timms: It was on council tax benefit. Do local authorities welcome the fact that the Government are devolving the design and payment of council tax benefit to separate local authorities? How would councils feel if some constraints were imposed—for example, on taper rates—in order not to undermine the work-incentive benefits that universal credit is intended to provide?

[Stephen Timms]

Councillor Reed: We are quite keen that council tax benefit should not be included as part of the universal credit, because it would make it more difficult for councils to collect at a time when collection rates have been going up for the past few years. That would be made more difficult if the system were made part of the universal credit.

We think that there is a role for local authorities to play in making the whole system work, and that by localising collection for the whole system, you can take advantage of the greater proximity that local authorities have to people who are on benefits, and our ability to understand the multiple and complex issues that particular families may be facing as they try to move back into work—things such as alcohol or substance misuse, and chaotic families. Local authorities already have a lot of insight into that, so we would like to see the system designed in a way that takes account of our ability to build on the kind of expertise that we already have. That fits in with the Government's localism agenda, as well.

The Chair: We move on to the next section.

Q240 Jane Ellison: At the moment, size criteria for housing applies to housing benefit recipients in the private rental sector, and the Bill makes provision to apply the same criteria to the social housing sector. We are interested to hear your views on the proposal in general, and also what your feeling is for the likely impact of that on mobility within the social housing sector.

Councillor Reed: By size criteria, do you mean capping the benefit?

Q241 Jane Ellison: No, I mean rooms, under-occupation and so on.

Councillor Reed: If you mean mobility between larger and smaller properties, I think that incentives of that kind make perfect sense. The problem we have at the moment is that there is a limited amount of social housing at a time when there is growing demand for it, and the reduction in the capital funding that we receive to build additional social housing will make that tighter. The fact that the housing market is still not moving means that we are getting more demands from people for accommodation in private rented and social housing, so we would welcome ideas and proposals that would encourage people to move from properties that are larger than they need to properties that better meet their family's needs, so that families who are in cramped and overcrowded conditions could move into better-sized properties.

Q242 Jane Ellison: May I follow up on that? Do you have any sense in your authority, for example, or other London authorities that you are aware of, of how much of the housing needs list might be met if under-occupation were addressed? I have some sense about that for my local authority. I wondered whether you had looked at it in your authority or other authorities.

Councillor Reed: I do not have any figures here, but I am sure that we could send you some. I know that in London alone the housing waiting list is some 500,000,

and I imagine that even what you are talking about would deal with only the margins of a problem on that scale.

The waiting list is probably somewhat smaller than that, because some people will be on the list for different reasons or may have found alternative accommodation, but we know that it is extremely large. It is disproportionate compared with the amount of housing that is available, and it is growing because of pressures in the economy that mean that people are unable to buy their own property. We know that there is pressure for more affordable housing because rents in the private rented sector have been going up because of the impact of demand and supply, and because of the freeze in the housing market. That is a huge issue that we need to tackle. This proposal would deal with it only at the margins. The real solution is to find more ways to make affordable housing available and get people off the waiting list.

Q243 Maria Miller: I welcome your support for this measure. Do you have any ideas about whether disabled people who may have had adaptations made to their houses are a significant issue that we need to cope with in terms of their ability to move from property to property? Can you give us any feelings that you might have on that?

Councillor Reed: I suppose that you would look at that in terms of the cost of making a further adaptation to the new property that they might move into.

Q244 Maria Miller: Is it a sizeable problem?

Councillor Reed: I am not aware of that being a particularly huge issue. On disability, we are worried that, as part of the reforms to disability living allowance and the replacement of that with the personal independence payment, there is a proposal to cut the total budget by some 20%. We are worried that that could create a significant impact on our social care budgets in local authorities.

Q245 Maria Miller: I am sorry. Just to be clear, I am really focusing on the housing stock that you have.

Councillor Reed: I do not think that that is a huge problem, but it is part of the mix.

Q246 Sheila Gilmore: The proposal in the Bill about under-occupation in the social rented sector is to reduce the amount of benefit paid to people, regardless of whether they have moved or whether there is somewhere for them to move to. Do you think that that is a good way of trying to reshuffle the pack? As a councillor, my experience was that people often wanted to move, but the smaller house was not where they wanted to live or it was a high-rise flat that they did not want to move to. This is a specific proposal to reduce benefits.

Councillor Reed: If I am absolutely honest, it would depend on the circumstances of the individual. If you have an older person, who is living in a property near to their family and near to their social networks and those networks are providing a great deal of support, I do not think that it makes much sense to move that person to a place where they have less of that kind of support and, therefore, their demands on public services may increase. You would make that individual's life more difficult, and you could increase the cost to the public purse at the same time, so you are achieving neither of the outcomes that you would want to achieve.

In circumstances where it is relatively easy to move a family or tenants from a larger property to a smaller one in the same area and of the same quality, and they are willing to go, then there would be absolutely no reason not to do that. You would have to take the individual circumstances into account before doing that, because you do not want to end up with a situation that costs more and creates more problems.

Q247 Ms Buck: On that same point, the reduction in housing benefit will, according to the Government's impact assessment, impact on 670,000 households in two years' time. Will local authorities have the capacity to downsize 750,000 households into appropriately sized accommodation in their localities by then?

Councillor Reed: No. We do not have properties available in those numbers.

The Chair: We will move on to the next issue, which is the setting of local housing allowance rates.

Q248 George Hollingbery: Clause 68 amends section 130A of the Social Security Contributions and Benefits Act 1992, and gives the Secretary of State the power to set LHAs at his or her discretion. It has been estimated that, by 2013-14, that would be done in line with the consumer prices index. Do you have any thoughts on that?

Councillor Reed: I am sorry, on what?

George Hollingbery: On the Secretary of State's taking powers away from rent officers to set local rents and instead setting a global rise in rents in line with CPI.

Councillor Reed: That does not allow us to adapt the way that the model will suit local circumstances. If you have an area where there is more work available—and in such areas the cost of renting property tends to be higher—the effect of capping the benefit that you are going to give people, so that they can no longer live in the areas where jobs are available, is likely to mean that they are less likely to get into work. They will be forced to move to areas further away from the work, and the additional transport costs—particularly if you move to outer London from inner London, or to outside London from inside London—would become a disincentive for those individuals to take work, even though the housing costs would be lower. There needs to be local flexibility in those levels to reflect the actual costs experienced in that area.

Q249 George Hollingbery: Do you have any idea—in Lambeth, for example—how much the LHA is by proxy, if you see what I am saying? What proportion of privately rented properties in your borough comes under that funding stream?

Councillor Reed: I do not know the number.

Q250 George Hollingbery: I just wondered whether you have any feel at all of how much downward pressure it might put on rents. That is a totally theoretical question.

Councillor Reed: There is not much evidence. From some work that London Councils did, there is not much evidence that there is any downward pressure on rents

from doing that. The pressure that you will get is from private landlords withdrawing from accepting tenants who are on housing benefits, because they cannot meet the market rent by doing it that way. High rents in that part of the market are not caused by the level of LHA that is being paid: it is caused by the housing market freezing up because of the recession, which has caused more demand for rented property than there is available, which has caused the rents to go up. The only thing you will achieve by pursuing that will be to push people who are looking for work away from areas where work is available.

Q251 George Hollingbery: I wonder how you can know that. Given that you do not know the level of LHA rental in your borough, what evidence can you present for that?

Councillor Reed: London Councils conducted some research, which we could send to you. It surveyed landlords to see how many of them would lower their rents if that was done. The majority of them would not lower rents; they would simply stop taking tenants on housing benefit. We could send you that information.

Q252 George Hollingbery: Do you take my point that it is difficult to be absolutely quantitative about it without knowing the level of LHA spend in your area?

Councillor Reed: Yes. I am sorry that I cannot give you the figure on LHA, but I have some stats here. Research by London Councils quoted in Parliament on 13 October found that 60% of landlords renting to tenants in receipt of housing benefits would not be prepared to reduce their rent if the tenant could no longer afford to pay the existing rate because of the reduction in LHA. More than 90% of landlords said that they would try to evict a tenant or refuse to renew the contract if the tenant fell into arrears.

Q253 George Hollingbery: Indeed I might have said exactly the same thing when I was a private landlord, but I would have wanted to look at the market conditions. If you have any data on that, I would be very glad to receive it.

Councillor Reed: Sure. We can send you what we have.

Q254 Paul Uppal: I am going to change the question I was going to ask you, Councillor Reed. I worked in the property business for about 20 years and I have a great deal of experience of private landlords. Sitting across a desk from landlords—just as you are sitting in front of me now—I have witnessed conversations between tenants and landlords that went along the lines of, "Well, what sort of rent are you looking for? What can we do in terms of what the local housing allowance is?" That conversation was relayed to me more than once. The vast majority of managing agents that I came across would say that it was common practice. In view of the 60% figure you have just quoted, it would be very interesting to hear your views on that.

Councillor Reed: Anecdotal evidence such as that is interesting, although it does not necessarily reflect the full picture. The dynamic here is simply the laws of supply and demand. At the moment, because of the freeze in the housing sales market, an awful lot more people are renting, particularly in areas with high

[Paul Uppal]

employment. It is the fact that there is an oversupply of demand combined with a limited supply of properties that is pushing up the rents. Any rational landlord is going to go where they can get the best rental income. If LHA means that rental income from housing benefit claimants is capped, but rental income from alternative potential tenants is not and there is sufficient demand from such tenants, the rational landlord is going to take the higher rent. That squeezes housing benefit claimants out of the system and therefore out of areas where there is greater access to employment, thus pushing more cost onto the public purse than you might save by implementing the cap.

Q255 Paul Uppal: I have a quick follow up to that. It is essentially anecdotal, but it was almost an open secret. It happened across the country, too—I know you have spoken about localities. If it was a perfect market and it followed that, I would completely buy into what you are saying, but I am incredibly dubious about it.

Councillor Reed: Laws of supply and demand seem fairly well established as a means of creating market rents in a particular area. It is your judgment whether you think that that anecdote gives you the full story, or if it is the evidence that we have collected by talking to landlords, as well as the evidence you can see in areas where there is high demand and limited supply of who is moving into those properties, and what would happen if landlords were being asked to take lower rents. Any rational individual owning a property will not take someone who can only pay a percentage of the market rate, when it is easy for them to get the market rate.

The Chair: Okay. We will move on to the next section now.

Q256 Jenny Willott (Cardiff Central) (LD): I have a couple of questions about the benefit cap, which has had quite a lot of publicity. What do you think or what evidence have you seen about the impact of the overall benefit cap on housing benefit?

Councillor Reed: Did you say the impact of the benefit cap on housing benefit?

Q257 Jenny Willott: Yes, because all benefits will be included within the cap, including housing benefit, so there is a question about the amount that will be available for tenants.

Councillor Reed: Okay. There are a number of impacts that could be had by capping benefits in the way that the Bill proposes. One is that we are worried that it will increase homelessness, as families are no longer able to be housed in the areas where they currently live, and there is a statutory requirement on local authorities to rehouse homeless families. To make a saving in one area, you could simply be creating a greater cost in another, in an area where the local authority has no discretion whatsoever. That does not seem to make enormous sense to me.

Q258 Jenny Willott: Have you looked at how much that is likely to cost?

Councillor Reed: Using the March 2011 rent service

data, families with two children who are looking for property in the private sector with two bedrooms in central London and inner London will have to significantly supplement their rent support from the basic amounts that they are currently entitled to for personal support by up to £38 a week. The point is that the proposed total benefit caps do not take into account the higher accommodation costs in London. Beyond the cost on homelessness, if people who need work are being pushed away from areas where work is available, they are being kept on benefits rather than being allowed to use the established route out of poverty, which is to get themselves back into work again, so you are achieving the opposite of what the Bill sets out to do.

It is also perhaps worth reflecting that at the same time as they are making these changes, the Government are reducing the amount of investment in new social housing, so there is growing demand but shrinking supply. One effect of that is increasing ghettoisation in the social housing that we have got, where people who are poor in income terms are locked into communities that are harder to get out of, which generates a range of social problems. It does not make any sense to push unemployed people away from areas where there are greater opportunities to get back into work and away from the social networks that support them. I know that a number of local authorities in outer London are very concerned, for example, about their difficulties in planning pupil place numbers if large numbers of families are displaced from inner London boroughs to outer London boroughs, where the funding is not available for those pupil places.

Q259 Jenny Willott: Have you done any research into the impact of the cap on housing markets locally?

Councillor Reed: No. That is being conducted at the moment, so we can send it to you when it is available.

The Chair: We had better move on. We still have quite a few questions to get through.

Q260 Guto Bebb: As you are aware, the Bill proposes to abolish the social fund, with some elements being devolved to local authorities. I have been quite surprised by the evidence that we received this morning and this afternoon and the lack of confidence shown by many in the ability of local government to deliver aspects of the social fund. Do you share that lack of confidence, or are you of the view that local authorities could play a part in delivering those services?

Councillor Reed: I will read you what elements I have in my brief, if that is helpful.

The Government have said that the localisation of the social fund would be fully funded. The localisation needs to cover all the costs, including administration cost of £19 million for community care grants alone in 2008-09. The Government have also said that local government can provide assistance flexibly according to local need. That flexibility would be welcome, but the localisation passes on a significant financial risk on case load at a time of turbulence and reform in the benefits system and a trend of rising demand. We would be looking for decisions to be based on customer experience and where people would naturally go for help. We think that there is a role for local authorities, because of our

greater interaction with families and individuals in providing face-to-face support, to be able to take on aspects of this work that we think would make it more effective.

Q261 Guto Bebb: To press you specifically on that issue, a comment was made about a postcode lottery being part of this, but I would argue that the point you have just made about the ability to respond to local needs is a strong point in terms of what the Bill is proposing.

Councillor Reed: The Bill seems to envisage that people will primarily access that kind of support via the internet or by telephone, but we think that up to a third of people will want to access it face to face and there is not sufficient provision for that. Since local authorities already have systems in place to deal with people face to face and are already aware of a number of the other problems that those families may be presenting with, we are better placed to deal with it than alternative models might be. That would then allow us to provide the greater local flexibility that you are talking about.

The Chair: We are fast running out of time, so we have to move on quickly to the next section.

Q262 Kate Green: Also on the social fund, what if local authority decisions are challenged by individuals? How confident are you that you have robust and transparent decision-making processes to decide who gets a crisis loan for a cooker and who does not?

Councillor Reed: The system is quite confusing at the moment, because part of the role is carried out by local authorities and part of it by the DWP. It would be simplified if it was all carried out by local authorities. For that to happen, we need access to more of the DWP data so that we can see its data on which customers are receiving or and which are not. That would make the decisions we are taking more robust, but would also allow us to map trends to ensure that appropriate levels of support were available where they were needed.

Q263 Kate Green: And to your knowledge, does the DWP intend to share that information with you?

Councillor Reed: We are working with the DWP to ensure that that is what is achieved.

Q264 Stephen Timms: On that point, for council tax benefit presumably you will need to access the income information about applicants as well. Are you talking to the DWP about getting the real-time PAYE information?

Councillor Reed: We are in conversation with the DWP about all of this; we do not have resolution at the moment, but that would obviously be part of that as well. I think the point is to simplify the system. It makes sense for local authorities, which have access to more of the other data about those individuals and the problems they may be presenting with, to carry out that role rather than the DWP, but that would involve a different relationship with Jobcentre Plus in the locality, or even local authorities taking on some of that function.

The Chair: We are really up against the clock now.

Q265 Margaret Curran: May I just clarify that you are referring to England specifically, and you do not have any responsibility for Scotland, Wales or Northern

Ireland? There are huge implications for local government in those countries and I think that that needs to be brought to the attention of the Committee.

Councillor Reed: I have checked and we do not, no.

Margaret Curran: That is what I thought.

Councillor Reed: I ought to have known that.

Margaret Curran: That is quite alright. It is more of a problem for us than it is for you. I will not blame you for that.

Councillor Reed: Certainly not Scotland, anyway.

Q266 Margaret Curran: May I just ask whether you are looking at the distribution formulae you have for the fund. Are they being reviewed?

Councillor Reed: We are at a point where the whole system is facing reform; we are looking at the whole model, how it works and how it can work more effectively to get better value out of what is spent, to ensure that the resources are targeted most on those who need the support. The purpose of the review is to achieve exactly that, yes.

Margaret Curran: So yes, it could well be reviewed.

The Chair: Order. I am afraid that is the end of our time for this session. Thank you very much, Councillor Reed, for your evidence to the Committee this afternoon.

3.15 pm

Q267 The Chair: The next set of witnesses represent Shelter, the National Housing Federation, the National Landlords Association and Crisis. Welcome, gentlemen, would you like to introduce yourselves, right to left, starting with Mr Harding?

Roger Harding: I am Roger Harding, head of policy research and public affairs at Shelter.

David Salusbury: I am David Salusbury, chairman, National Landlords Association.

David Orr: I am David Orr, chief executive of the National Housing Federation.

Duncan Shrubsole: And I am Duncan Shrubsole, director of policy and external affairs for Crisis.

The Chair: Thank you.

Q268 Harriett Baldwin: Clause 11 of the Bill provides for an amount to be included in the universal credit in relation to housing costs. Those costs may take the form of rent payments, mortgage costs or other housing-related costs. What are your recommendations for how housing benefit can best be integrated into the universal credit to ensure that it reflects housing costs in the private and the social rented sector?

Roger Harding: First, I should like to make a point about clause 11 that we are universally concerned about, which is that it is quite a blank piece of paper in terms of what it will stipulate for that housing element of the Bill. In effect, it removes the 1992 pieces of legislation that set down what housing benefit is and certain principles that should underlie it. That is quite concerning because, in effect, it gives the Secretary of State quite a lot of power to reform housing benefit in the future.

Q269 Harriett Baldwin: We are therefore asking you for your recommendations on what you would like to see in it.

Roger Harding: Sure. The first one is, simply, that those principles are relaid in the Bill, so that for future changes we have to come back to a Committee such as this, rather than it just go through secondary legislation.

The primary provision I would like to see in there is a link between the payments made for housing and local housing costs, especially for the private rented sector but also for the social sector. Currently in the social sector, it covers the amount of rent owed on a social property; we think that should be maintained. In the private sector, there should be a link to the local market for private rents, which will be removed by the link to CPI, which is quite worrying in terms of the number of areas that will become unaffordable in the future due to that change.

Duncan Shrubsole: To add to that, there has long been accepted, from Beveridge onwards, that in the benefits systems on the housing side we needed a housing payment that was related to the cost of housing, not just nationally but in different localities. We are concerned that any move away from linking to rent in a locality, such as we currently have through the broad rental market areas and the rent officer determinations, would lead to a divergence that very quickly would mean that there were areas of the country that you would not be able to rent in; and in other areas a gradual divergence between the housing costs payment for universal credit and the rental areas. It has taken us a long time to get the link back between pensions and buying power. We would have a long-term divergence between housing benefit and housing costs at our peril.

David Orr: May I say something specifically about social housing? The point about social housing is that it exists because of market failure. It does not exist as a market. One thing that we have discussed, and probably will discuss further, is the extent to which, because of the undersupply, we need to think creatively about how we use social housing effectively. As a response to market failure, Government invest in the provision of social housing and in consequence they set the rent. It seems to us that it makes sense to say that if Government have already set the rent, the system by which people are supported to pay that rent should cover that rent. It should not be a housing cost, it should be, "If you're in a social home and the rent is X, the housing support is X."

Q270 Harriett Baldwin: Does anyone else want to come in on that one? Is your recommendation on how housing costs should be calculated under universal credit that we should not make any changes at all to how housing costs are calculated?

Roger Harding: Indeed. That would be Shelter's position, particularly in relation to the private rented sector, where calculations are based on local rents at the moment, and I think that that should continue. Any welfare safety net should enable you to live, roughly speaking, in the area you currently live, such that you can get back on your feet, maintain your children in school and maintain family and support links, and, therefore, increase your chances of getting back into work, because you are aware of the employment situation in your area.

Q271 George Hollingbery: We were pursuing a similar line with our previous witness. I am very interested in private sector rentals and would be much more comfortable with what you are saying if we were presented with empirical evidence—negative evidence—that Government subsidy has no effect on the private rental market. I want to be absolutely certain that we can demonstrate that what Government pay in LHA does not influence the march forward in private rental rates.

Roger Harding: May I add to that? The DWP conducted a two-year review of LHA that conclusively said that that link was not happening and LHA was not driving up rents. Further evidence to that is that about 50% of claimants make up the shortfall between what they get in benefit and what they have to pay out. I would almost spin the question around and say that I would like to see evidence and proof from the Government that LHA rates are driving up rents, because we have not seen evidence to that effect.

It might be the case in some market areas that if you reduce the LHA rate, you will see some downward pressure on rents, but that would tend to be in areas where there is already a very high proportion of claimants. In some areas, such as Blackpool, 80% of private tenants are claimants, so if 80% of claimants had their benefits reduced, you would expect downward pressure. In areas such as London, where claimants typically make up around 20% of tenants and there is a lot of competing demand from students, young professionals, migrants and others, you would expect a reduction to have a very minimal effect on rents and would expect them to rise as they have been rising for the past 20 years or more.

David Salusbury: We can provide no empirical evidence on that, so anything I say would tend into the realm of assertion, which I do not think would help.

David Orr: I agree with the proposition that the responsibility to demonstrate the need for change belongs with those who are proposing the change. It is difficult to prove the negative and it is also extremely difficult to prove that LHA has had that impact on rents.

If I may, I want to return briefly to Harriett Baldwin's question about clause 11. We have suggested an amendment to it, which provides some details of the precise change that we would like to see. Specifically, in relation to rents chargeable in respect of properties let by local authorities and by private registered providers of social housing, the appropriate amount should be 100% of the rent and eligible service charge. We have other proposals. Our key issue with clause 11 is that it is far too widely drawn at the moment. There are no reference points in it other than that this will be determined by regulation. We think that that does not give enough opportunity for scrutiny, either now or in future.

Duncan Shrubsole: I have two points to add to that. One is that, as Roger said, a large number of tenants already face a shortfall between the benefit they receive and their housing costs. We need to understand that the Bill has arisen largely because of market conditions, rather than because of the LHA itself. We are already seeing one level of LHA cuts going through, which is the move from the 50th to the 30th percentile. In a way, that gives you an opportunity to test the Government's hypothesis, or an alternative hypothesis. The point is that the Bill does not give an ongoing framework through which you would be able to review the level at which

benefits are set or to tie them to housing costs. This is one shot at trying to remove the current framework, without any assurances on what an alternative framework would be or, over the long term, how there will be a relationship between the housing costs that people face, as a reflection of the housing market, and what they will receive in benefit.

Q272 Harriett Baldwin: May I move on to how the Government should support those who need help with mortgage payments? Do you have any recommendations on that issue?

Roger Harding: From us, specifically on that, we would ideally like to see the Government paying the benefit rate at the interest rate that people are paying. At the moment, the Government have said that they do not have the computer systems to process that. If the universal credit will move to a more real-time processing and data collection system, I see no reason why we cannot move to a system whereby people, who get into mortgage difficulties and are able to claim, have their interest payments covered in full, rather than the current situation where a standard rate is set, which, for some, is more than their interest rate and which, for many, is less than their interest rate. I welcome the move in yesterday's Budget that extended the increased capital limit for support for mortgage interest payments and the reduced waiting time. I would like to see that continue and put in the Bill.

Q273 Harriett Baldwin: Does anyone else have a different view? My final question is on the arrangements for housing benefit to be paid. Do you want to express a view on the ongoing debate on whether it is better to pay it to the tenant or to the landlord, or to have some formal arrangement on when that may need to change?

Duncan Shrubsole: We have always been clear that the best thing is to empower the tenant by giving them choice over how that benefit is paid. Under the old system, a proportion of tenants had it paid to them, and they then paid it to the landlord. Efforts could have been made to greater encourage that. There were big issues around bank accounts and people having the right mechanisms, but by switching it so that everything was paid to the tenant, it ended up giving everyone a bad name when individuals got into difficulty. Those who could manage their money now face difficulties, and those who were clear that it would be better if it was paid directly to the landlord now face difficulties.

We currently have two things going on: one is the eight-week rule, which means that if you get into arrears, they can be paid to your landlord. We think that that should be looked at. Secondly, a measure was introduced whereby some payments could be made direct to the landlord if they looked at their rental level. That was introduced just before Christmas. We think that that should be continued and extended. The benefit, particularly for vulnerable people, is that their housing costs are the largest element of their budget. If they take the view that, to be able to stay in their accommodation, just like you or I might have direct debits, payment would go directly to the private landlord so that he continued to let to them, that is surely something that we should facilitate. The current vulnerability test has improved, but it is still inconsistent in how it is applied across councils to allow that to happen.

David Salusbury: If I may go on from that, it is definitely something that our members continually raise as an issue for them. Of course, we were disappointed when the right for the tenant to opt for the direct payment of rent to the landlord was withdrawn. We are disappointed that the incoming Administration have not honoured their undertaking to restore that right to the tenant. We welcome the announcement that, in certain circumstances, the rent will be paid direct to the landlord, which Duncan has just mentioned.

This is not simply a matter of sectional interest on the part of the landlord. The landlord would prefer that to be the case, but there are two other issues that I would invite the Committee to consider in that context: one is the vulnerability of the tenant. Many of those in receipt of benefits are, by definition, vulnerable. Many of them have difficulty in managing their finances. The knowledge that the rent will be paid and that they are secure with a roof over their heads is of considerable importance to some, if not many.

The other aspect is that as the demand for affordable accommodation in the private rented sector increases—the signs are that it will increase, and it has increased markedly in recent years—private landlords need to expand their portfolios, particularly the reputable ones who deal with rented accommodation as their main activity in life. Of course, not all the 1.2 million people in the country who could be described as landlords fall into that category, although several hundred thousand do. When they consider expanding their portfolio, they put together a business plan and go to a lender. To be able to say, “Of course, the rent is now being paid direct to me” where the tenant agrees—it is the tenant's decision—could, we think, be helpful in persuading a lender to help a landlord expand their portfolio. We think that it would also ease the absorption of these changes that are about to hit the sector.

Q274 Harriett Baldwin: Does your association have any evidence that it is better value for the taxpayer to pay the rent directly to the landlord?

David Salusbury: We are closer to being able to provide empirical evidence on that than on your previous question, because it is linked with the question of rent arrears. An increasing number of members tell us that they are experiencing arrears. In all instances where public money is involved in those arrears, it is, of course, a taxpayer issue, because the landlord not receiving the rent, to meet costs, can find themselves in the difficult situation of having to do something about it in the form of applying to the courts for possession. That is a cost that falls to the landlord, but there is a taxpayer funding dimension as well.

Q275 Harriett Baldwin: But are the rents measurably lower for the taxpayer?

David Salusbury: Than where?

Harriett Baldwin: Is the landlord prepared to offer lower rent for the taxpayer in a situation where the rent is paid direct to the landlord than in a case where the rent is paid via the tenant?

David Salusbury: I think that I see where you are coming from.

Harriett Baldwin: Have you got any statistical evidence on that?

David Salusbury: No, not historical evidence, but our members tell us that they are more likely to wish to maintain the status quo of the tenancy where the landlord-tenant relationship, in their view, is satisfactory, as it is in the overwhelming majority of tenancies in the UK. We tend to dwell a little bit on the headlines, but the overwhelming majority of tenancies are conducted entirely to the satisfaction of both parties. The landlord in that situation is more likely to absorb the reductions in LHA that are very much in the pipeline given the knowledge that the tenancy will continue to function satisfactorily. Not all landlords are going to be rushing forth with possession orders. In fact, a minority will do so. We think that about one third might consider it when the rent is reduced, but when they are faced with the practical realities, it remains to be seen how many actually will.

Roger Harding: There would hopefully be an administration saving as well. At the moment, councils have to agree their policies for assessing who is vulnerable and then assess people according to whether they are vulnerable. If you change it over and give the tenant the choice, you would hope that the administration would be simpler. As David said, if this is something that landlords are after, you would hope that more landlords would come into the housing benefit market, which would have a downward pressure on rents. It is worth stating that this is a clear area where there is absolute agreement between the homelessness charities and the private landlord organisations.

David Orr: There has been some concern that payment direct is in some way equated to a failure on the part of the tenant. I really want to challenge that assumption. It is an entirely rational decision for tenants to make. Working with an extremely low income, administratively and pragmatically, it makes sense for that money to be paid direct. Now, you can do that only if you opt to do it. It is not an obligation. It is something that tenants have to choose. The big majority of tenants so choose. Talking to tenant board members of housing associations, they consistently say to me, "You need to do everything you can to persuade Parliament that we need to retain a mechanism for payment direct."

Separately, in the context of the universal credit, I accept that the administrative arrangements will be different and potentially more difficult. I understand that the Department is exploring ways in which this might be done through bank accounts and direct debits. There are a number of difficulties attached to that, not least the very real concern among tenants, possibly on a household income of £100 a week, that a failure to meet a direct debit payment might land them with a £35 charge. That is an entirely rational fear on their part. But we have offered to work with officials in the Department to explore all possible ways of creating an effective mechanism within the context of universal credit. I know that that offer has been well received by Ministers, but if this Committee could assist us to get civil servants to engage in that discussion with us now, we would be very grateful.

David Salusbury: May I add a postscript to that? We are well aware of the difficulties of direct payment in relation to universal credit. This was explained to us in some detail by none other than Lord Freud fairly recently. Dealing with the here and now, if some way

could be found to do this, even temporarily, on the understanding that it will be reviewed as universal credit is rolled out—because of the administrative difficulties—we believe it would go a long way to easing the introduction of these changes that are about to hit us.

Q276 George Hollingbery: To develop Mr Salusbury's point very briefly, we are talking about the certainty of income for landlords to be able to borrow and buy more apartments. What about the same situation in social housing where there are huge assets out there that could be leveraged to borrow and build more social housing? Direct payments would facilitate an equitisation in the marketplace, perhaps to pension funds and others, so we could raise money on the markets against what we already had to build more social housing.

David Orr: This is my territory. I think members of the Committee will be aware that, as a result of the comprehensive spending review, there is now much less capital investment in the work that housing associations do. The new structure depends on a higher degree of revenue subsidy, effectively through the benefit system and higher rents leading to a greater borrowing capacity. There is capacity in our sector to be able to borrow more, although perhaps not as much capacity as people think. There are covenants that are wrapped up in some of the lending agreements about average debt per house and gearing covenants, which kick in quite quickly in some cases. But we are very keen to explore—indeed, our members are putting together detailed bids at present about how they can use the greater flexibility to charge higher rents in some circumstances to generate additional revenue to support further borrowing. It is absolutely essential that the structure now, particularly in the context of the universal credit, continues to support the certainty of the income stream, because if lenders are not confident about the certainty of the income stream, they will either not lend or they will price their lending at a much higher level, which will reduce the overall benefit of what we are able to do and reduce the provision of new homes.

Q277 Paul Uppal: I want to pull back to the direct payment of housing benefit—there seemed to be uniform agreement among all of you about that—to the default position of the tenant at least having the choice. David, I think you said that—forgive me if I am paraphrasing—direct payment to the landlord is very much the preferred option. From what you were saying, it seems that from the landlord's perspective it was previously a much more benign environment when they received housing benefit payments directly. Did the four of you notice any correlation between the change when housing benefit went to the tenant rather than to the landlord and fewer private tenants claimed housing benefit? Was there a correlation? Do you follow my logic?

David Salusbury: Yes, I do. If I understand you correctly, you are asking, "If it has not made any difference, why the fuss? Why the concern?"

Q278 Paul Uppal: As you said on behalf of your members, landlords would probably prefer the benefit to be paid directly to them. Therefore, in a less favourable environment, as the system changed from a direct payment to the money going directly to the tenant, was there a corresponding drop-off in the number of landlords

taking up tenants who received housing benefit?

David Salusbury: We do not think that there was an actual drop-off in the number prepared to do business in that sense. The pragmatists say, “My business has to continue.” We have noted, however, a gradual increase in problems associated with arrears and late payments. To an extent, it has become harder for the landlord to administer the lettings without that certainty. In some cases, it has become more difficult for the tenant to administer their side of the tenancy because of—how would one put this?—the temptation to use the money for things other than rent. That has certainly increased. The restoration of that degree of certainty is probably what unites the four of us. It seems sensible. Nobody could argue with the view that we must empower people and seek to include them. That is obviously sensible. The flipside to that is whether the individual would also be empowered if they had the choice to ask the benefit to be paid direct to the landlord. Is that not in itself a form of empowerment?

Q279 Paul Uppal: I buy into exactly what you are saying. I just wonder whether, in that investment environment—we are talking about hard-headed investors in the private sector—when things were more difficult, landlords would have preferred to have tenants from a private background.

David Salusbury: Definitely a mortgage provider for a serious buy-to-let proposition is going to be interested in the type of tenants that are on offer. In the main, they are less interested in properties that are tenanted by benefit claimants because of the unreliability that that situation tends to bring in its wake. That is a pragmatic view taken by mortgage providers. If one were to find some way—as we are discussing—of restoring a degree of certainty, the barrier to investment would theoretically be removed. There is a compelling argument for going down that route, but it is going to become more complicated when the universal credit is introduced. There is a case for doing it now, as a means of easing the transition into a lower LHA regime.

Roger Harding: During that period, I looked at some research by Shelter. It is hard to get trend data, but we came across a few cases of landlords who in effect had a “no DSS” policy. One of the main factors for that was housing benefit administration, which is often complex in itself, regardless of direct payments. The inability to have direct payments was a serious barrier, and through our advice services we have seen more instances of clients running up arrears. I do not like the use of the term “temptation” because that suggests luxuries. These are tenants having to weigh up paying utility bills and rents and so on—very hard choices. We have seen a rise in cases of people running up arrears and having to wait until they have eight weeks of arrears before they can trigger a direct payment to the landlord. That seems an unnecessary wait.

Duncan Shrubsole: The first thing to say is that a lot has changed in various aspects of the private rented sector over the past few years, and it is difficult to isolate cause and effect. That is also an issue looking forward—the growth of buy to let—and there have been various other pressures. Just isolating the effect of LHA is hard. As Crisis—this is also in response to Harriet’s question—we work with access schemes across the country that help formerly homeless people into

accommodation in the private rented sector. We clearly know that landlords have been more willing to take people who they might not otherwise take and to negotiate on rents when we have been able to arrange direct payment for them with the landlord. That has the effect of people being housed who would not otherwise have been and a saving to the public purse.

Lots of things can happen around financial inclusion, and bank accounts are a massive issue. If you have your housing benefit paid into your bank account and it is your largest amount, then if you have any debts or charges come off it, that takes money away from rent and becomes a real issue. But you tackle that through financial inclusion and not through LHA itself.

Lastly, there was an argument for LHA to be paid directly to the tenant, so that if the individual has negotiated a lower rate they have the ability to keep an element of it. Originally, they could keep up to any amount and then it was up to £15, and that empowered the tenant to do a bit of shopping around. That has now gone, so the argument for routing payment directly to the tenant has now gone out of the system anyway. They have lost that lever, and in any case rents have come down and we are in a different level of market. Because of the basic principle that the tenant should be able to choose and come to a solution that is best for them, better able to give them a housing outcome where they know they can keep a roof over their head and a landlord who is more willing to let to them, we think that the choice of direct payment should be restored.

The Chair: Okay. We have put a lot of time into that. Let us move on to the next issue.

Q280 Jenny Willott: I want to ask a couple of questions about the under-occupation of social housing. As I am sure you all know, the Bill introduces the same size-related criteria for social housing tenants as already apply to people on housing benefit or local housing allowance. What are your views on that proposal, and what do you think is likely to be the impact on mobility in the social housing sector?

David Orr: We are very sceptical about the measures as outlined. I think that everyone involved in housing associations and local authorities understands that there is a clear need to use the existing housing stock as effectively as we possibly can in an environment of acute shortage. I do not think that this measure will assist us to do that and, to be honest, to us it looks just like a means of cutting cost.

If you look at the mechanics and imagine a household that previously had five people living in it and now has three and has to move to a smaller property, first, you have to find the smaller property—it has to be available—and there are a range of transaction costs associated with that. If you are moving from a two-bed home to a one-bed home, we know that there are not enough one-bed homes in the market to be able to come anywhere near accommodating the number of people who are technically under-occupying a two-bed home. Physically, the property is not there for them to move into.

Some 3% of properties in London and 43% in the north-east and the north-west are under-occupied. The problem is that the supply is not geographically located alongside the potential demand. As a means of trying

[Jenny Willott]

to encourage movement and more effective use the existing stock, it will not work and will probably add rather than reduce cost.

If the intention is that people stay where they are but receive a smaller amount of money because they are deemed to be under-occupying, people who are already on the borderline of poverty will be pushed into poverty, and we will see people who are not able to afford basic household bills or, in some circumstances, food. They will certainly not be able to afford new shoes. This is not a sensible measure to deliver the outcomes that it asserts it is trying to deliver.

I want the Committee to understand that we are absolutely clear that we want to find ways that incentivise people to move. Very often, we get trapped into a way of thinking. I am in the position of a traditional parent whose children have left home, and I want my children and, at some point in the future, my grandchildren to be able to come and visit, and putting me and my wife into a one-bed flat will not allow that to happen. Putting us into a two-bed flat might, but we would technically be under-occupying. We have to have a much broader view of the flexibilities needed in managing our housing stock effectively if we are to meet the demands that are suggested by the measure.

Roger Harding: This is a harsh measure of under-occupation. It is not the measure of under-occupation that is used by the Department for Communities and Local Government—the bedroom standard—to measure under-occupation generally. So this only allows for one additional spare bedroom. In many cases, that is not an unoccupied bedroom. You could have the slightly ridiculous situation where a local authority is allocating on the bedroom standard and therefore allocating a family with two adults and two children who are aged 8 and 9 and of different sexes a house that allows a bedroom each for both children. That would be under-occupying according to the LHA change or the housing benefit change. They would therefore have their housing benefit docked, despite the fact that when one of those children reaches 10, they would not be under-occupying any more.

So it seems a very blunt measure, and it is very odd that the Government are establishing two systems of under-occupation rather than one. It is also blunt in that, as David said, it takes no account of people's attempts to move. Mobility within the sector is very difficult, particularly when there is not a good alignment between where those who under-occupying live and where smaller properties are. It will also have an acute effect in rural areas where there may not be much of a private rented sector for people to move to as an alternative and there probably is not much social stock as an alternative in many areas. So even if the tenant is trying their hardest to find a more appropriate property in their area, they will still find their housing benefit reduced because of this measure, when instead the measures that we know work are the measures that incentivise people and work with people.

Often what is needed, particularly in the rare but important cases where one person is in a three-bed property, rather than a blunt benefit cut, is a landlord or a local authority providing someone who goes to speak to that person and helps them, particularly where

they are vulnerable, with things like finding removal vans, looking for grants that will enable them to cover those costs and negotiating what can be quite confusing housing option systems. That is what will allow people to transition to more appropriate property, not penalising their housing benefit.

Q281 Jenny Willott: I want to ask about adapted housing. There are people who are now under-occupying where there has been a significant investment in that property to make it appropriate for disabilities and things like that. Do any of you have any figures on how many properties that might apply to where the adaptations are so costly that it is not worth moving that person?

David Orr: Yes. This is research that we have done. Our estimate is that there are 108,000 working-age social-housing tenants in Britain claiming housing benefit who live in adapted homes with one or more spare rooms. These are adapted homes, so if they move, the adaptations will have to be made to the new property. For the Committee's information, the average cost of a disabled facilities grant is in excess of £6,500; a ramp costs £500; a level-access shower costs £3,500. These are all significant costs, and they are generally in these circumstances, although not always, a cost to the state. Whatever else happens, there should be some very careful consideration of applying this measure to people living in adapted homes.

Jenny Willott: Thank you. That is very helpful.

Q282 Jane Ellison: We asked the same question of our previous witness who is a leader of a London council, representing London Councils and the LGA. While acknowledging that this was by no means a complete solution, he felt that local councils would welcome the flexibility that such provisions would offer. He took a slightly more positive view of things than you have done. Why do you think that there is such a discrepancy in views?

David Orr: I am absolutely clear that the more flexibility we have, the better, but this proposition is not about flexibility. It is about a financial penalty for people just because they happen to live in a house that has one extra bedroom. As I said earlier, we have to find the best possible ways of moving people, so that we can use our housing stock effectively. There are some places where people who no longer require the adaptations are living in adapted housing. There are people who live in wheelchair-adapted homes where no one is using a wheelchair. So we need to create mechanisms that allow for much greater movement and mobility. Indeed, I chaired a mobility taskforce looking at some of these specific issues, and some of them have been incorporated into the Localism Bill, which is very helpful. However, this is the wrong measure to attack these issues.

Duncan Shrubsole: This measure is not saying, "You have been offered alternative accommodation to downsize and you are not taking it." It is just saying, "You are in accommodation that is too large, and we are going to cut it." It does not take into account the intention or willingness of the individual to move when they cannot because there is nowhere to move to. It also does not take into account the circumstances of their house, or their own circumstances around disability, which you

mentioned. Additionally, in the areas where there is under-occupation, it does not take account of whether a council or landlord might have decided that it is better to have somebody in this house for the purposes of how the street is lived in, to tackle antisocial behaviour for the community. The people we have to move in there might happen to be slightly smaller than the house will accommodate, but otherwise those streets and neighbourhoods will be empty.

It is not a measure that is saying, "We have people here we want to move there, or people here who are moving." It is a crude cut across the piece. DWP officials have been clear that it is not about tackling over-crowding; this is just a straightforward cut, and people are expected to take the hit. If people are expected to take that hit then it has an effect on their household income—whether they can have heating, food, and the other bills that they pay for.

Q283 Jane Ellison: So let us take the situation that you presented. If somebody is offered a move to somewhere that is more suitable for their household size and they just say no, what would you do, bearing in mind the pressure on waiting lists and the number of people desperate for appropriate housing?

Duncan Shrubsole: You could say that that was a measure to explore, but that is not what this measure is.

Jane Ellison: But I am asking, what would you do?

Roger Harding: In this instance, there is already a measure for social landlords that allows you to take possession of the property if you have found someone suitable alternative accommodation. In the law as it stands, a social landlord could go through the courts to take possession of the property, provided that they could make the case that a suitable alternative was provided. So, if we wanted to tackle it in that way, the law exists for social landlords to do that.

Q284 Jane Ellison: Can I push you—do you think taking someone to court is any less draconian than proposing a benefit cut?

Roger Harding: I do not think that it is an ideal situation, but this is of far more concern, given that it involves stripping away the housing benefit of hundreds of thousands of people, and with a large saving aligned to it. If the DWP believed that this would actually work and free up accommodation then they would not be aligning the amount of saving to it that they have, because you only get the saving if people stay in the home and take the benefit hit.

Q285 Ms Buck: On that point, assuming that, for argument's sake, everybody notionally impacted by this cut seeks to avoid it, could the sector make alternative offers of accommodation to everybody who sought to avoid that penalty over the next two years?

David Orr: No.

Q286 Ms Buck: Excellent. Also, could you tell us how you see the attraction between local authority allocation policies and the status of housing association tenancies and so forth. For example, were Mrs Smith in a two-bedroom flat in Watford to make an application to avoid

the penalty, would she be able to request that Barnet council provided her with alternative accommodation, or would anybody be able to do that?

David Orr: She would be able to make that request, but her assessment would be on the basis of where she was prioritised by Barnet council and its allocations policy. There is a whole range of institutional factors, which are rather inflexible at the moment, that would benefit from being freed up very substantially. One of the points that we made on our mobility taskforce and in discussions about the Localism Bill was that when a property becomes available the local authority, understandably, will always want to nominate someone from the top of the housing list directly into that property. We want to create chains of moves, but that takes longer, much more negotiation, and it means that there has to be a bit of give and take. However, it is much more likely to deliver the outcomes that we are talking about here. So I think there is a real willingness to explore how to do it, but there is a very strong view that this is not the way.

The Chair: We move on to setting local housing allowance rates.

Q287 Kate Green: Mr Harding, you have already mentioned your concern about linking benefit levels to CPI, rather than to rental levels in the rental market area. Can you expand on what you think the impact of this will be?

Roger Harding: The impact over the long term will be a stripping away of the value of local housing allowance. We have seen in the past that rents tend to rise at a faster rate than the consumer prices index. That is driven by the fundamentals of supply and demand in the housing market. Successive Governments have not built enough homes, particularly affordable homes, so we are seeing rising house prices, typically on trend, and we are seeing rising rents as well. That means that it is outstripping CPI. That will mean that more and more areas become unaffordable. Research that we have done at Shelter together with the Chartered Institute of Housing has shown that, once you play that policy over 10 years, at least a third of local authorities across England become unaffordable. That quite quickly strips away the value of the policy.

The comparison with the basic state pension is a particularly pertinent one. The Government have recognised that it was a mistake to decouple it from earnings and that it was not a dramatic cut in the first year or two but, spread over 10 or 20 years, it was a very dramatic cut. This has the potential to be the same, if not worse, because housing benefit, unlike other benefits, has a spatial element to it. In areas where rents grow fastest—you would imagine those areas to be areas of economic growth—you will see rents outstrip benefit rates and drive people out of those areas. You could also see benefit claimants being driven away from the areas with the most employment opportunities. Some case study analysis that we have done shows just that effect. If you had imposed this change 10 years ago and run it forward, you would see that within market areas, quite quickly the areas with the greatest number of job opportunities become unaffordable and people are pushed out into areas where even the transport links make it very hard

[Kate Green]

for someone to get a job. A final consequence is that it is more likely to drive people into benefit dependency, because it is going to push them away from the labour market.

Q288 Kate Green: What is your view on the Government's argument that the way in which we uprate benefits is better reflected by using CPI and the treatment in CPI, compared with RPI, of housing costs?

Roger Harding: There has been some confusion in this debate, suggesting that we are moving with housing benefit from RPI to CPI as is happening with other benefits, which is not the case here. We are moving from using local rents and broad market rental areas and moving towards CPI, so that is a very different change. That is very important because housing benefit has a spatial dimension that does not apply to other benefits. There is no London or regional weighting to other benefits. There is in housing, because housing costs vary so much by region. I do not buy the argument that that is a more sensible uprating. Rents only make up about 5% of the CPI measure. The reason is that the majority of people do not rent, so it is not in their household basket. It is a very odd measure to use. At the moment, CPI is running at 4.5%. Undoubtedly, that is going to be a higher rate than rent inflation in certain parts of the country. If you had that policy in place, you would find you were overpaying housing benefit in some areas and underpaying in others. If the Government are very certain that their other previous changes to LHA will reduce rates, including the LHA caps, I do not see a problem linking future payments with rents.

Q289 George Hollingbery: There is surely some tension here about the Government feeling that landlords will push rents as hard as they can, knowing that the Government stand behind LHA. How do the Government deal with that problem if it is not by imposing a mechanism different from what we have now?

Duncan Shrubsole: To repeat some of what was said earlier, first, we have always accepted that in the benefit system there is one element which has to take account of the actual costs of living in a locality. JSA and other rates are set across the country, but in order that people can live near areas of better economic activity, we take account of that through the benefit system through housing costs. Secondly, half of people already face a shortfall. It is quite a significant shortfall of about £23 a week. Thirdly, the Government have already said, "Okay, we used to set local rents at 50% of the market; now we are setting them at 30%." The argument is that that will have an effect and we need to see how it plays out, but it still provides some linkage to actual rents.

Lastly, the Bill proposes to move to CPI and to stay with CPI for ever, in terms of basing the intentions. We need to make sure that there is a measure whereby, if they propose to go ahead with CPI, not only DWP Secretaries of State but, given the fundamental importance of this to our housing policy, Communities and Local Government Secretaries of State are committed to a periodic review—ideally annually, but at least on a regular basis—to look at the extent to which people's buying power and landlord behaviour have changed

and whether we need to rebase rents. At the moment, there are no such safeguards in the Bill. As Roger said, looking at the extent to which pension-buying power diminished when the link to earnings was removed, with the move to CPI you will very quickly see a divergence that will have a knock-on impact for individuals and landlords over the years.

Q290 George Hollingbery: This is probably my ignorance—I do not see where the CPI move is in the Bill?

Roger Harding: It is not in the Bill. We know that the Government want to link LHA to CPI, because they have made various statements about that from the emergency Budget onwards, but it is not stipulated in the Bill. Clause 11 will bring forward a lot of other measures, and one particular concern is that many big future changes could be made to housing benefit without legislation being brought into Parliament and receiving the level of scrutiny that this Bill is rightly having.

Ministers have said that they do not expect housing benefit to be linked to CPI for ever, but they have given no assurances that that commitment will be written into the Bill in any way. As I say, the comparison with the basic state pension is a very useful one, because once something like this sits on the statute book it tends to sit there for a while and have a deeply corrosive effect over several years. This is an important opportunity to make sure that at least we have a stipulation that the CPI will not be there for ever.

Q291 George Hollingbery: Can we agree between ourselves that CPI is not in the Bill? While there are strong Government suggestions that that the CPI will be followed, that is not in the Bill.

Roger Harding: They have made it clear that they will use the Bill to bring it forward.

Duncan Shrubsole: But they have not suggested any other alternative. The big issue to cross is that, wherever you sit on the political divide over the Bill, we need to have more information about what is proposed across a range of areas, housing costs being a key one.

The Chair: We move on to the final set of questions in this session.

Q292 Paul Uppal: I have a more generic question—some of this will already have been covered in your submissions—on the overall impact of the benefit cap on housing benefit and how it will affect families. Roger and Duncan, as time is pressing, would you like to give your views from the sharp end?

Roger Harding: We are deeply concerned about the overall benefit cap and we are opposed to it. As I mentioned before, what vary most in the benefits system are housing costs. It is not acceptable to be in the position that we find ourselves in, with housing costs being so high in areas such as London and the south-east, but other areas as well. That needs to be solved through long-term supply. What will not help is to punish the poorest for the failure of successive Governments to build enough homes.

It is important to state that the benefit cap affects quite a range of families. Fundamentally, it starts to undermine the safety net that the welfare state was set up to provide. Analysis that we have done at Shelter

shows that much of the south-east will become unaffordable to three-children families, because of the cap. For a typical family of two adults—with one or both working—and three children, if both parents lose their job they will suddenly face not receiving enough housing benefit to live not only in their town, but in their region.

A blanket cap will be imposed on most of the south-east and London. It is a fundamental principle of any welfare safety net that if, unfortunately, you become unemployed—something we are very aware of in current circumstances—the state provides you with enough support to remain in the area in which you currently live to get yourself back on your feet and to look for another job. People with two children, and particularly people with three or more children, will suddenly be faced with a horrendous choice between cutting back on the real essentials, intentionally overcrowding their family or moving a substantial distance away from their children's schools, their family networks and probably employment opportunities.

Q293 Paul Uppal: Do you have a definition of overcrowding? Are there criteria that you guys particularly use?

Roger Harding: There is one that the DCLG uses, which is the bedroom standard. It is quite complex because it depends on who is in the household. You have to take a household and then judge. For example, young children are expected to share a bedroom, but after the age of 10, if they are of different sexes, they get another bedroom. Clearly, by that standard, they would have to overcrowd. I can give you more information on the exact definition and an indication of how many people would be forced.

Q294 Paul Uppal: I would be interested in a clarification. When I was a child, I used to share with four other children. What would my definition be?

Roger Harding: In one bedroom? That would be overcrowding by that standard. While that may have been the case for yourself, it is clearly an unacceptable position in the 21st century. I would not, simply because Members of the House and many other people have found themselves in that situation in the past, accept that that is what our welfare state should deliver in the 21st century. As I said, it should be a safety net that if people find themselves unemployed, they should not be suddenly penalised by having to move town or area or having to cram a lot of children into a single bedroom. That just does not feel appropriate in any way in a truly modern welfare state.

Q295 Anas Sarwar: I want to follow up on your point about people potentially being forced to move as a result of the changes. You mentioned that it was specifically a problem for London. Have you made any assessment on whether that is a risk anywhere else, such as Scotland or other parts of the UK? Is there a risk elsewhere?

Roger Harding: There is a risk elsewhere—in Scotland, Wales and many other areas in England. In those areas, it tends to affect even larger families. Our analysis was purely on three-child families, and most of the impact there tends to be focused exclusively on the south-east and London. However, as you increase the number of children in a household, many more areas in the country will be at risk.

Q296 Anas Sarwar: Are data available about the possible impact on parts of Scotland, for example?

Roger Harding: There is, and I can provide them afterwards.

David Orr: I think some of the things that we have been discussing this afternoon are distorted by the particular housing market of London, but most of them are general to the whole country. I know that the Scottish Federation of Housing Associations has submitted evidence to the Committee that identifies the same issues. There are concerns about direct payments and under-occupation because they will have an impact on communities right across the whole of Britain.

Duncan Shrubsole: On the affordable benefit cap, first of all, to build on what Roger was saying, there is an assumption that people claiming benefits have always been claiming benefits. Actually, there are people with large families who for some reason—perhaps one parent dies or gets into trouble—have to be reliant on benefits for at least a temporary period while they look to go back into work. Local housing allowance is a benefit where 26% of claimants are in work. An increasing number of people are doing what has been asked of them, which is to reduce their hours so that a company can stay in business. Housing benefit is an in-work benefit.

Secondly, a key concern that we have on this Bill is about how it does or does not link with the Localism Bill. In the Localism Bill and the proposed new structure of affordable rent with rents for new social housing—80% of market rate—we are proposing to repeat some of the mistakes of the past, which is letting the housing benefit bill take the strain and not investing in social housing.

Lastly, just to put on the record, there is now a new cap that affects single people as part of the affordable benefit cap that was not in the original announcement. That will particularly affect single people in some forms of supported accommodation, where the rents are higher because of the level of support that they get through that facility. The cap will affect them too, and we need to be aware of that.

David Orr: There has been an undiscussed issue about all this, which is supported housing. The new system for developing new stock, which is part of the DCLG proposal, will not provide new specialist supported housing. The impact of the way in which housing benefit operates and the way that it supports some of the people who are in supported housing, who are some of the most vulnerable people in the community, has not yet been properly thought through and is likely to be quite profound. I spent most of my morning today at St Mungo's, talking to people working there, and the impact of the changes that they see coming over the horizon, on their ability to move people into settled accommodation and on being able to continue to afford to do what they are doing now, will be quite profound.

The Chair: Order. We have run out of time. Thank you, gentlemen, for giving evidence to the Committee this afternoon.

4.15 pm

Q297 The Chair: We come to our last witness of the afternoon, the Secretary of State for Work and Pensions, the right hon. Member for Chingford and Woodford

[The Chair]

Green (Mr Duncan Smith), who I think we all know, but perhaps he could introduce his two colleagues to the Committee.

Mr Duncan Smith: May I introduce Neil Couling, who many in the Committee will already know? He works in the Department for Work and Pensions and is responsible hugely—he is the expert—for most of the figures we will deal with, as they are quite complex. Also, Terry Moran, who is essentially heading up the universal credit programme. Most Committee members probably already know both of them.

Chair, with permission, on Second Reading I promised that I would inform the Committee as we bring more information forward about some of the changes. I wondered if it was possible for me, on three items, to read some notes to the Committee, informing it of some changes we will bring forward—one on disability, one on the capital tests and the other one on how we intend to pay some of the benefit changes. Would that be all right?

The Chair: Briefly, because we have quite a lot of questions.

Mr Duncan Smith: I will try to do it as briefly as I can.

The first point is about the changes to the rather complex disability payments at the moment. There are seven additional payments for disability, three different disability premiums, two components in employment and support allowance, and two further elements in the working tax credit, each with their own rules and qualifying criteria. The resulting maze is quite difficult to deliver.

For example, a single person could receive a severe disability premium if they also receiving either the middle or higher rate of the disability living allowance care component, does not have a carer receiving carers allowance for providing care for them and who also technically counts as living alone. Someone on the highest rate of DLA might also get an enhanced disability premium, though this is also paid automatically to people who receive the support component of the ESA.

Individuals in work could receive a disabled worker addition if they had been or were receiving a qualifying benefit, were considered to be at a disadvantage in the labour market because of disability, and an additional element for severe disability if they also receive the higher rate of the care component of DLA—I am sorry, I am rattling through this quite quickly, but it is quite complex. If people receive housing benefit or council tax benefit, it could include the basic disability premium. What we have is a fairly complex and difficult system to understand, with an awful lot of overlapping issues.

The introduction of the universal credit offers us the opportunity to simplify this and to do away with some of the complex range of benefits. In finalising this design in the new system, we will obviously be mindful of the fiscal situation but, despite this, we will reshape and completely recycle all the money that is already available within these various premiums that exist in three of the areas, including the tax credit.

In future, for adults, universal credit will have one single gateway and two additions to reflect the fact that people whom we expect to remain on universal credit for longer have higher costs. The arrangements will

broadly mirror the current ESA approach, with eligibility for the two components determined by a single assessment. People entitled to either addition will also benefit from a more generous earnings disregard, meaning that a household containing a disabled person can earn up to £7,000 a year before the taper moves in. People will keep the additions as they move into work.

Using resources from our reforms to the existing disability premiums, we aim to raise in stages the level of the support component equivalent in universal credit to £74.50 a week. This is significantly higher than the basic £31.40 a week in the current system. It is also a significant increase to the differential between work-related and support components. The differential is currently around £5 a week and will rise to over £48 a week.

For disabled children, we aim to have two additions paid at the same rate as the adult components. This means there will be increased support for the most severely disabled children. As now, eligibility for these additions will rest on receipt of DLA for the child. In addition, we will expand eligibility to the higher addition so that severely visually impaired children will also be able to receive the higher rate. In many cases, therefore, people will be better off under universal credit. For claimants whose universal credit award will be less than now—for example where people receive the severe disability premium—as a direct result of the move to universal credit, we will provide transitional protection as already agreed.

I am sorry that that was quite complex. It will be circulated; it is going to be posted. I promised that I would explain what was happening to those on Second Reading. I have two other much shorter announcements. Do you want me to make them?

The Chair: I think it might be more appropriate to circulate them to the Committee, as we have limited time to get through the questions.

Mr Duncan Smith: Okay. I will be guided by you. One is simply on capital and the other is on payment, which we may get to anyway in questions.

Q298 Priti Patel: Thank you, Secretary of State, for that introduction. We have heard a great deal about universal credit from witnesses so far. I would welcome your views. Could you provide an indication of the number of families where there is long-term, inter-generational welfare dependency, and could you explain what effect the universal credit is likely to have on such households, in terms of incentives for getting them into work, and behavioural change?

Mr Duncan Smith: As the Committee will know—it is important that I explain this—we have not made any assessment for what I call dynamic effect. We and the Treasury have agreed that we work simply on the basis of things such as take-up. We do not assume that greater effect will take place as a result of changes in individual lives. However, I do personally believe that will happen.

The changes that we make with universal credit are hugely supported by the Work programme—they should be seen as two sides of the same coin. Universal credit is particularly aimed at those groups. The problem we have had for years is that when we try to understand why groups have long-term and often family-conditioned unemployment, we have to realise that for many there

are no real incentives to move beyond an experience they understand to one they do not, such as unemployment versus work. To do that they have only one thing that I guess acts as an incentive, and for the most part that is money. There needs to be an understanding that, if they do make that shift and change to a wholly different culture, they have to do it first of all because it pays—that is the whole point about work paying—and particularly on the lower level of hours. As people will see with universal credit, the benefits are quite significant, particularly for those first entering work.

The second aspect, with the Work programme that comes later, is that the mentoring side of it will enable them to be sustained in work, because they will meet some very big challenges in a cultural sense as they go into work, not being able to stick the job. We often see a lot of rotation taking place, with people who have gone into work. It is easy in a sense to get people into work, it is less easy to help them stay in work until they get what I call the work habit. A direct answer to the question is that universal credit is particularly aimed at that group of people, so that we give them that single incentive about going back to work: that work pays. They do not see that there is a marginal shift; in fact, they do not even believe that there is no benefit to them going back to work. Most of all, the simplification of that back-to-work process—getting rid of so many of those complex withdrawal rates—should also have an effect on their understanding. It is critical that they understand without having to go into the Jobcentre to ask for guidance. They will understand how much money they hold in their pockets after they have finished work.

Q299 Yvonne Fovargue: Trying to determine winners and losers can only be an estimate because we do not have a lot of detail. For example, what income is going to be treated as unearned income? Will it include statutory maternity pay and widow's pension? How are the passported benefits going to be treated? When will that detail become available? Will there be any further equality impact assessments, particularly given the announcements you have made today?

Mr Duncan Smith: First, as we make further announcements and changes, where relevant and where we are required to do, we will make sure that those assessments are properly presented to both the Committee and the House. There are issues such as passported benefits that I think you were referring to. Most of these lie beyond the scope of the Department so we have to resolve some of these issues like free school meals. There are several issues that are not directly in our control but, interestingly, historically they use our benefit figures to set their own payments. So what we will do and what we are doing right now is to discuss the issues with each of the Departments concerned to make sure that the level they are setting it at is relevant to the universal credit and does not act as a work disincentive.

I shall try to get the Social Security Advisory Committee and the Cabinet Social Justice Committee to create that scope to make that recommendation to each of those Departments so that we can begin to control to some degree how that works and make sure that they understand the trade-offs between the universal credit's requirement to keep work incentives and their requirement to support people in a variable amount of ways, including things like free prescriptions and so on. That is the process we

are going on. You asked when. I believe that during the Committee stage we should be in a much stronger position to make it much clearer how we will do that. That was an undertaking I gave on Second Reading.

Q300 Yvonne Fovargue: You predicted a considerable amount of saving on fraud and error. Where did you get the figures that lead you to believe this will happen?

Mr Duncan Smith: These are figures that we calculated with the Treasury, and through our historical understanding at DWP of how this works, and with HMRC. We believe that two or three things will happen with the introduction of this simplified system. A lot of this is error which masquerades as fraud. We know that and it is important for us to recognise that not everything that goes wrong is down to fraud. Often it is down to error. Some of it is legitimate human error. One of our biggest problems is the confusion about when people are meant to notify and whom they should notify about changes in their lives.

If you take universal credit at the moment, while somebody is in work we will pick up almost automatically with the real time system when their hours change. We will not require somebody to then notify us and to make a reconciliation subsequently. That will automatically be picked up and then transmitted back. If they do have to notify the Department, they will only have to notify us once. There will not be a complex set of notifications such as over here because it is a tax credit and over there because it is a benefit consideration. Just by the very simplification of this we should get down to eradicating a lot of the unintentional error/fraud that goes on. That is quite a consideration.

On the other side, we are planning to spend and invest a significant amount of money in beefing up our fraud inquiry teams who will be free to look at the greater levels of fraud that exist within the system. Those calculations have been agreed between us and the Treasury and we are in discussion still with the Office for Budget Responsibility about recognising the full extent of those savings.

Q301 Ms Buck: A quick technical point for the Committee's clarification: can you remind us how many households you expect will go into the universal credit when it is introduced and what figure you are working on of the number of households where two generations are workless?

Mr Duncan Smith: Let me start with the first bit and I may bring these other two in as they have a far greater command of the figures than I do. Neil, do you want to have a quick stab at that one?

Neil Couling: Essentially, for the conversion of universal credit, there are about 19 million different claims. But that is a multiple series of claims for people who are in receipt of housing benefit, tax credits and the income-related benefits. By the time you get to the complete roll-out of universal credit that reduces to about 8 million live claims. So we are taking 19 million and turning it into 8 million. Underlying that there are 8 million households claiming multiples of all of that.

Q302 Ms Buck: And the figure for the number of households where at least two generations are workless? We talk about intergenerational worklessness a lot and it would be good to have a specific figure.

[Ms Buck]

Mr Duncan Smith: We do. I would be happy to come back with a specific figure for the Committee. I will not do so immediately. We work on the principle that a fifth of all households have no work at all, but obviously we can define that exactly. I do not want to give you a general figure when I can give you a specific one and I am very happy to do so.

Q303 Anas Sarwar: Good afternoon, Secretary of State. I wanted to ask about transitional protection and get some clarification of what kinds of event are likely to qualify as a change in circumstances and cause claimants to lose their transitional protection. For example, could small changes in circumstances have a significant impact on a household's benefit income? How long do you envisage the traditional prediction lasting? We have heard evidence from a number of people who are concerned about the high level of change in people's circumstances and its potential impact on hundreds of thousands of families.

Mr Duncan Smith: First, the transitional protection is best described, I suppose, as a cash protection. That is to say, we do not envisage it being upgraded over the years in line with inflation or with how other benefits change; it is a cash protection. It is there, most of all, to ensure at the time of change that whoever is affected by that change need not decide immediately what they must alter in and around themselves and in their lives. It gives them time to figure out, under the new system, what is best for them.

Take, for example, lone parents working 16 hours. That is where they have clustered, because that is where they have had the greatest payment. It will allow them to stay with that payment and then figure out whether, for considerations of their own care, they might be better off at 14, or whether they might be able to take jobs on offer at 18, 19 or 20 hours. They can look at that and figure it out, and then when they make the change, it is a conscious decision. We believe that the majority of people will make a conscious decision to change their hours in accordance with what they need, because they will recognise that for the first time, they can now do so and not lose money, relatively. If they go up in hours, they are better paid, and if they go down in hours, at least they can be paid for that, whereas before, they would not find that at all advantageous.

At the moment, we are considering carefully what might trigger those. We do not anticipate in any shape or form that there will be a cliff edge or drop-off. We are considering it, but we think that the best thing to do is consider how it is staged depending what decision people make. But that is still under review, and I will come back to the Committee with a greater sense of that.

What triggers that? How big a change in a household would be needed to trigger it? We are still discussing and debating that particular area, but again, I promise that I will come to the Committee with greater details of that before the Committee stage is over. I stand by that. We are just making some final decisions. We are consulting a lot with most of the groups that you have spoken to, and we are asking lots of questions about what they think the trigger points are. We want to try to get that right.

Q304 Anas Sarwar: On that principle, even a minor

change will not necessarily mean a change of circumstances?

Mr Duncan Smith: Again, it depends hugely on what we define as a minor change. We could all say that a minor change will not, but then what is a minor change? Your view of a minor change might be different from mine. That is what we are trying to do. Neil, is there anything you want to add to that?

Neil Couling: The transitional protection is not time limited, first of all. Essentially, because it is a cash transitional protection, changes in income will erode transitional protection, but if there are wider changes, such as a change in entitlement—say somebody no longer qualified for universal credit—obviously the transitional protection would end then. You would not just pay a bit of transitional protection then. Say, for example, that the claimant left the country. The transitional protection would end along with the rest of the universal credit entitlement.

Mr Duncan Smith: I think that you are more worried about the minor stuff. I accept that. I think that that stuff is easier to understand.

Q305 Anas Sarwar: I suppose that a better way of putting it than “minor change” would be to ask: is it safe to assume that not every change will result in a change in circumstance?

Mr Duncan Smith: Again, it depends exactly what those changes are. We do not anticipate that every single change will. Some adjustment changes are not relevant to a change in status, but there may be other changes that we think indicate a change and a move, and we are considering that at the moment.

Q306 Jenny Willott: Secretary of State, I know that it is not completely clear yet what changes in circumstances would cause somebody to lose their transitional protection, but has the Department done any estimates of how long you think people will receive transitional protection? Some of the evidence that we received from witnesses was that the average number of changes of circumstance reported to the Department is about six in six months, whatever they might be. It might be for very short periods that people might get that protection.

Mr Duncan Smith: On average, it is mostly income rises that make that change, in general, when we look back over the nature of what happens to people. Within a two to three-year period most people naturally, before it arrives, would have changed their circumstances for one reason or another in a way definable as being no longer relevant to the transitional protection that we are anticipating, even under universal credit.

I do not know. My personal sense, for what it is worth, is that with universal credit we may see a naturally higher level of cycling through. Right now, under the system, it is very difficult to make small variable changes in what you do, because it does not pay you to do it. But with universal credit, because it spreads it out, people will find that they can move up and down the hours with greater freedom than before, because those hours will pay. So I suspect that, compared with the current average time it takes everybody to cycle out of their situation, we may find that they cycle out much quicker under universal credit, because the options are much greater. We have looked at the numbers, and we think that, within the point about income changes, that will actually be the case.

I do not know whether Terry has anything to add.

Terry Moran: I have nothing to add.

Q307 Jenny Willott: It strikes me that there is a potential concern about the impact on the work disincentive. If someone has transitional protection until a significant change in circumstance, it might make it riskier to take work. It is one thing if they are already in work, but if they are looking to move into work, it could make the jump into work more risky if they lose their transitional protection. If their income is protected for a certain period of time—

Mr Duncan Smith: If they are coming into work for the first time. If they are stuck moving from no work to work—

Neil Couling: I understand the question that you are asking. The answer is, no, there is not a bad effect on their work incentives. This is how the transitional protection works: say, for example, your entitlement is £100 of universal credit and you have transitional protection of £20 on top of that, your UC taper would start at £120, rather than starting at £100 for somebody else. So if you imagine two lines going like that, you stay on that line with your transitional protection, assuming that there are no other changes. There is not a disincentive effect of going into work.

Q308 Jenny Willott: So going into work would not count as a change in circumstance that would mean that you would lose the transitional payment?

Neil Couling: No. That is why I was very careful in my evidence to talk about income, rather than earnings.

Mr Duncan Smith: I thought you were talking about moving out of work and then back into work?

Jenny Willott: No.

Mr Duncan Smith: I am sorry, I misunderstood you. Thank you for understanding the question, Neil.

Q309 Kate Green: Witnesses have told us that the policy choice is between either getting people into work at all or getting them into sufficient work that they are lifted out of poverty, and the policy choice that has been made is to get them into work at all. What assessment have you made of the likely impact of that on in-work poverty and on women's participation in the labour market where they are in couple households?

Mr Duncan Smith: I have not brought the figures with me, but we think that there would be quite a significant effect on in-work poverty. We think it will be a very positive effect. I will be in a position to give you some much better figures for that later on. We have looked at it, and we think that there will be a significant positive effect on in-work poverty. We think it will do more for improving in-work poverty than almost anything else that we have been able to do.

The other thing is about women in work. I know you have posed that question because we are looking at household income, and because the first person to work will benefit more now than they did before. The second earner, one might argue, is more likely to be the woman of the household. The only difference that it makes is that the first person is more likely to have an income that is likely to lift that household. The second person is

still free to enter work and add to that income, but the pressure on them to do so will not be so great. In other words, they will be in a position to make that choice, rather than it being an imperative. They may be able to match that with their caring responsibilities at the time.

Q310 Kate Green: But are you not concerned that that will disincentivise second earners from taking up work because the clawback rates will be quite high? That will, in time, potentially compromise women's economic independence and put them at risk if a relationship subsequently breaks down.

Mr Duncan Smith: I do not see that. The situation that we have at the moment is that, in households with two people, the second earner is under enormous pressure to work because it has been a conscious decision that the first earner's entry into work, particularly through part-time hours, simply does not pay enough to lift them above that line. So the pressure on the second earner to go to work is about having to go to work to get an income to make that family sufficient, or have an income that is sufficient for them to get by.

What we believe will be the case with universal credit is that the first person into work will create a more sufficient income. The second earner will then be earning essentially to top that income up, if that is what they choose to do. That gives them greater scope to be able to make that decision. In all the work that I have ever looked at on people making a choice about going to work, most people are going to work at this stage because they have to go to work, in the areas that we are talking about, to earn an income. They have very little choice about that. They have to go because if they do not go, that household's income is simply not enough. What universal credit will do is give them the liberty to be able to make that choice so, while that pressure is not on them to go to work—they will still make the conscious decision if they wish to go to work—that will still be a useful addition to the family income.

Q311 Kate Green: But will it not actually limit the choice, in that it will disincentivise the second earner, because the gains for a second earner going into work will actually be reduced?

Mr Duncan Smith: It is interesting that you use the word "disincentivise". At the moment, I would not call the system that we have incentivising the second earner. I would call it forcing the second earner to have to take that work because the first earner is incapable of earning enough money to free that household. That affects lone parents dramatically, because they have no second earner in the household. Therefore, other than 16 hours, that is where they struggle. They bunch up around one set where the Government have decided to subsidise one level of work. My point is that that helps lone parents enormously to make that choice fitting with their caring responsibilities, which, after all, is a major bonus for them.

The second point is that if we are not careful we tend to look at this from the glass-half-full point, which says there is something desperate because they are disincentivised. I do not think that that is the case. The key thing here is to see that they must be more able to make that choice because they have the scope to make that choice. It may be that the woman is the one who goes into work first as

[Kate Green]

the main earner, and the man might take that decision separately. In other words, I think it balances it out much better than it does at the moment. I see the present system as really forcing the second earner into work, because they simply cannot afford to get by unless that second earner works. That is not much choice, really.

Q312 Paul Uppal: Secretary of State, thank you for the figures, which we spoke about earlier, that you are going to provide in terms of intergenerational benefits. On the specific point about disincentivising, do you not see the ethos and idea of setting parameters and a work timetable for families as sending out a really positive signal about work as a route out of poverty and as the solution?

Mr Duncan Smith: The point of universal credit is, ultimately, that it provides. I cannot remember who it was who asked the question about in-work poverty. It will have a big effect on in-work poverty. If I can just think of households rather than individuals, the key thing about this is that all households need work if they are to emerge properly out of poverty and take control of their lives. As opposed to saying that everybody in the household absolutely must work, the point is that they can make the decision about that. It is far better that they make a decision about how they do that. When we look at household income we are able to show, through universal credit, that by taking that work it pays, and that by taking that course you will lift your household out of poverty and eventually move well beyond and take control of your lives. Universal credit is at the heart of trying to resolve household poverty, which ultimately feeds into child poverty as well. We can see the figures from that when we talk about the numbers that are lifted out of poverty—some 600,000 adults and 350,000 children—just on the static set of universal credits.

I said earlier that I make no assumption about dynamic effect. The IFS originally, some years ago, made assumptions about the dynamic effect of the sort of system that we are talking about. The Centre for Social Justice made assumptions about dynamic effect. We have made none. In my heart, I believe that there is dynamic effect, but I am not laying claim to that until we have seen the figures. Even without that, we see a significant number of people lifted out of poverty, as we define it today. That has to be a good thing, and that is through universal credit.

Q313 Stephen Timms: Secretary of State, you have indicated that there are some important details that have not yet been decided, but you will be able to tell us about them before the end of the series of Committee sittings ahead. Are you able, though, to confirm that the Committee will see each set of the regulations referred to in the Bill, or at least a summary of what those regulations will do, before we reach that clause in the Committee's debates? Without that, I think the Committee would have some difficulties. Specifically, can you tell us how child care costs will be supported in universal credit and whether we will see those regulations ahead of the Committee's debate on clause 12?

Mr Duncan Smith: Those are one and the same

question, so if I deal with them within child care, I can deal with it more generally as well. It is my intention, as far as is humanly possible, to make sure that when you reach that stage of the Bill, I can give you all this information. The commitment I make throughout is that, before the Committee stage is over, all this information that we are referring to should be available. There may be some limitation within that as to how we go about this. Child care is one of the areas where I am desperately trying to get as much view and opinion as possible from stakeholders in this as to how they would best see the way that we want to set child care.

There are two things that are important and at the same time quite difficult. We are dealing with child care through universal credit, but as I think one of your witnesses said earlier, "This is about universal credit; don't expect child care through universal credit to resolve the larger issue about child care more generally." That is my point. We are trying to resolve something through universal credit, but we are not resolving all of child care. There is a wider debate to be had about that. I am trying to focus on how, through universal credit, we can deliver the necessary child care—which we have committed to, and committed to at the level of finances at present available, but which will hopefully in future increase. But there we have to set what we think is best and how that is spread and where that goes. I hope to be able to come forward to the Committee with those sets of options so that there can be some greater decisions made in time for that part of the Bill. I promise to try to do that but if I do not, it will certainly be done within the Committee stage.

Q314 Stephen Timms: The Committee would have some difficulty debating a part of the Bill where we did not yet know what the Government's decisions were. Should we be considering reordering our debates so that we have all the information in front of us? Should we leave clause 12 until the Government have decided what they are going to do about child care? That may be a solution.

The Minister of State, Department for Work and Pensions (Chris Grayling): There is an important aspect to the debate that all Committee members should bear in mind. This is fundamentally a Bill that enables and paves the way for a number of further decisions to be taken. There are a number of elements. For example, clause 12 simply makes provision for there to be a child care element. It does not set things out in detail, nor would it be expected to and nor would it have done in previous Bills. I have told all Committee members, and the Secretary of State has just echoed this, that we will provide them with as much information as we possibly can. We will set out intentions right the way through, but this is still fundamentally an enabling Bill and we are discussing measures that create the framework and not the detail itself.

Stephen Timms: Chair, it is not possible for the Committee to do its work if it does not know the Government's decisions.

The Chair: This is an issue for a programme motion if parties disagree about it. The Committee has passed a programme motion which we are working to and if there is disagreement about how to proceed, it is for

someone to move another motion at the appropriate time so that the Committee can consider whether it wishes to change the existing motion.

Q315 Sheila Gilmore: I was hoping that the Secretary of State could give us more information on how he intends to administer claims and payments for housing benefit and mortgage interest under the universal credit. For example, how will rent levels be determined without the local expertise we currently have with it being administered locally?

Mr Duncan Smith: The best way of describing this is to say that we do not have plans to change the way we do the local end of it. I do not think there will be any change to the way we are doing that at the moment. I do not foresee that at all. What we will take from that is what we then take into universal credit. The plus points about moving housing benefit into universal credit for people on the ground are enormous. One of the great concerns that I find endlessly, as I am sure Committee members do in their constituency offices, is that our surgeries are full of lone parents, and often others, who have gone into work for a while and then had problems. When they have come out of work, they have found that it has taken more than a month, or whatever, to get their housing benefit reinstated. So for that period they have been materially worse off.

I was determined to take housing benefit into the new system, because the beauty of universal credit is that under the system, housing benefit will automatically be adjusted. If people are no longer in work, for reasons beyond their control, it will be adjusted immediately—they will not have to wait. That will hugely advantage them financially. In addition, one of the problems with people re-entering the world of work after a difficulty is that they carry with them a wage scar. If you leave work and afterwards find yourself worse off, the first thing you will say to most people you know is, “Don’t bother with that, because it’s nothing but pain and heartache.” So people will try to avoid the process.

The measure should, therefore, act as a peculiar reverse incentive. People will say, “Well it didn’t work that time, but I’ll keep going and try again, because I wasn’t materially worse off.” Using the existing systems, on the ground, of assessment, we should be able to take this through and use it through universal credit. It will provide a net benefit to everybody who is going into work and falling out of it.

Q316 Ms Buck: I think that is absolutely right in terms of uncertainty in housing costs and so on. But will you clarify how the IT system will accommodate that? Is that going to be easy, given that most of the real-time adjustments are around earnings? What implications does that have for IT?

Mr Duncan Smith: We do not think that it has huge implications; we think that it will work very well within the real-time system, because that adjustment will be picked up automatically. If we end up with a monthly resolution, we will pick it up in a short space of time, so we do not anticipate that problem. It is not a problem that has been flagged up to me. It is a net, net, net positive. If we can get this right, that alone will have a huge effect on the damage that has been done to families who have, tragically, just lost work and found themselves worse off.

Q317 Ms Buck: May I ask a couple of questions about the social fund, and the devolution of community care grants and crisis loans? I would be interested to know your thoughts on three issues. First, local authorities will have responsibilities for administering the community care grants. Will there be devolved administration costs when that provision moves away from the DWP?

Secondly, witnesses have raised a concern about the postcode lottery element. On the one hand, there is scope for closer local engagement having a positive effect—that point has been made, I think. On the other, unless you issue guidance, there will be a whole variety of different practices. People will not be clear—literally from one street to another—what entitlements they may have.

Finally, what will happen to that significant minority of people who will, for different reasons, move around? Inner cities and seaside towns, for example, have a highly mobile population. For all kinds of reasons, people may be temporarily in one local authority, but have come from another a few weeks before. Without clear guidance, the receiving local authority might say, “We have no duty here and we will not be interested in paying for you.”

Mr Duncan Smith: I think the right thing is to localise the provisions. I know that there is talk about a postcode lottery; I have never felt that the postcode lottery applies to everything. I understand from being a politician, and from having been in opposition myself, that the postcode lottery is a good thing, generally, to whack Governments with when they are making changes such as these. It is a little unfair to do that in this case. Different communities differ in intriguing ways. Even my area has differences within a mile and a half in how different types of people are living, where they are living and what conditions they are living in across that piece.

We have had a real problem with this provision. On the crisis loans, with the distant telephone system, we have seen a threefold increase in demand. That growth happened before the recession, which has, of course, made the situation worse. Before the recession, we saw a huge growth, and most of that was because when you do a distant, telephone-based system, you can never truly understand what the circumstances of the individual are. Maybe they did not need a loan. Maybe they needed a grant. You do not know.

The second one, being paper-based, is incredibly complicated and difficult to understand and, again, is somewhat dislocated from where they are now. If we use people in the local area, which is where I think that local authorities have a huge role to play, they should at least understand the person sitting or standing in front of them and what their real need is. It also provides an opportunity for them to identify somebody who has a problem. They can then move them across on to the right system and maybe get them reassessed. There should then perhaps be a recommendation that they should be on the Work programme and getting their mental health conditions or drug or alcohol abuse sorted. In some cases, we have people that are getting 20 separate loans in a row, and they are just using it to sustain their lives in an unsustainable way. By and large, we think that this will succeed in helping to understand the nature of the loan and the nature of the grants, and we think that this will certainly work much better. I

[Ms Buck]

to it properly. Do you agree with that?

recognise the differences between communities, but the job of local authorities is to ensure that they understand their own communities.

Q318 Ms Buck: And they will be funded to able to do this much more intensive work?

Mr Duncan Smith: This is not a cuts agenda at all. This is a transference, so that they can actually administer it better. We are transferring what we would normally do now, and I think that they will do it much better than we do. I will be honest and say that I do not think that we do it well at all. Everyone says, "What if they get fewer loans?" but the point is that, right now, all we do is sit at the end of the telephone and fire out a loan to somebody that we do not know. In the local area, maybe they will look at them and say, "You're on your second or third time here. You simply don't need a loan. We need to do something else with you to try and sort your life out." Getting hold of the human being, rather than the figure, is what it is all about. I know that the postcode lottery thing is often seen as difficult, but I think that this is a positive rather than a negative.

Q319 Ms Buck: And we can protect against local authorities saying that this is not their duty with particular individuals?

Mr Duncan Smith: It is their duty.

Q320 Ms Buck: Whose duty would it be?

Mr Duncan Smith: It is a moral duty.

Q321 Ms Buck: If somebody is moving from one part of the country to another, how can we deal with that?

Mr Duncan Smith: They have to pick it up as they move across. If that individual moves across with a problem, they will have to make an application to them over that situation. Their situation will be relevant to the area that they live in. Sorry, I thought that you said there is no duty if the local authority has no care for it. I do not think so. I have talked to DCLG and the Secretary of State, Eric Pickles, about that, and he is clear that he thinks that it is a great idea and that they will have a real chance to get connected to the people in their communities. People who are involved in housing estates know who is on those estates, for example. We could plug into an awful lot of local information about the way that people are, and get it sorted out. It seems to me that the way that we are doing it currently is all wrong.

By the way, the changes were made at the time, because they were going into jobcentres and it was all wrong, went in the wrong direction. It was right to change it then, but it should have gone local, to the local authorities, not national, to the telephone.

Q322 George Hollingbery: Secretary of State, I think that that is one element of the social fund that is being replaced, and, within universal credit, there will be budgeting on account, which also fills part of that purpose. We have received a lot of evidence that the former part should be ring-fenced within local authorities and that local authorities apparently cannot be trusted

Mr Duncan Smith: I understand the debate about ring-fencing, and it easy to have a knee-jerk reaction and say we will not trust local authorities, because they somehow do not have the best interests of the people who live in their area and only a national body like us, run by a man like me, can possibly ever care enough about people on the ground to get it right. Somehow my experience over the past few years has told me that that is not altogether true. I am not saying that the person who was here before me did not care as much about this; I think that they did. The problem is how you can affect lives when you are sitting in Westminster, and you are trying to deal with somebody who is metaphorically a million miles away from you in every way. You need somebody on the ground to recognise their condition and somebody on the ground to deal with them.

All the conversations that I have had with leaders from councils, and also with Eric Pickles and others, is that if you actually give local authorities a real responsibility for some of the most difficult and worst-off people in their community, by and large they will seize it. It gives everybody in that community a chance to say, "You have to discharge your responsibility as a council to do this properly, because if you don't, it's time for a change."

That is really important. I genuinely believe that I know of no council that got elected to do worse for the people that live in their area.

Q323 George Hollingbery: And the element within universal credit?

Mr Duncan Smith: You are right about it.

The Chair: We are up against the clock, but the last question is from Jane Ellison.

Q324 Jane Ellison: I was going to ask about the under-occupation of social housing. We have heard a range of different views and concerns this afternoon. One was about the lack of smaller properties—

The Chair: Order. I am afraid that the clock has beaten us. That brings us to the end of the time allotted for the Committee. I thank the Secretary of State for coming before us and giving evidence.

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

5 pm

Adjourned till Tuesday 29 March at half-past Ten o'clock.

