

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT  
GENERAL COMMITTEES

## Public Bill Committee

### WELFARE REFORM BILL

*Fifth Sitting*

*Tuesday 29 March 2011*

*(Morning)*

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Written evidence reported to the House

CLAUSES 1 to 4 agreed to.

CLAUSE 5 under consideration when the Committee adjourned till this day  
at Four o'clock.

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

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**The Committee consisted of the following Members:**

*Chairs:* † MR JAMES GRAY, MR MIKE WEIR

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

## Public Bill Committee

Tuesday 29 March 2011

(Morning)

[MR JAMES GRAY *in the Chair*]

### Welfare Reform Bill

#### Written evidence to be reported to the House

WR 31 National Landlords Association

WR 32 Age UK

WR 33 Every Disabled Child Matters

10.30 am

**Stephen Timms** (East Ham) (Lab): On a point of order, Mr Gray. I bid you a warm welcome to the Chair on this, our first day of debate.

I want to raise a point of order about the regulations that the Bill gives the power to make. Last week, we learned from the Secretary of State that the regulations on child care will not be available until the end of the Committee stage. I suggested at the time that it will perhaps be helpful if we defer the debate on clause 12 until the end of our deliberations. I think the Minister has reflected on that and decided not to permit it, although, clearly, we will have to have some sort of debate on child care before the end of our deliberations. May we have some guidance on whether there are any other sets of regulations that we will not see ahead of the relevant clause?

On a similar point, will the Minister ensure that the regulations are sent to us in good time before future Committee sittings? I think we all received the regulations for today's debate at about 7.30 pm last night. I notice that the regulations provided for in clause 6(3) were not included. Will the Minister reassure us that we will receive such regulations in good time in future?

**The Chair:** The availability of regulations is not, of course, in my gift. I do not have the ability to do that, which is a matter for the Government. I know that Ministers will listen very carefully to what the right hon. Gentleman has to say. Traditionally, as a matter of courtesy to the Committee, regulations ought to be brought forward whenever it can be done. I know the Minister has heard what the right hon. Gentleman has said and will no doubt wish to refer to it.

#### Clause 1

##### UNIVERSAL CREDIT

*Question proposed,* That the clause stand part of the Bill.

**The Minister of State, Department for Work and Pensions (Chris Grayling):** If I might indulge the Chair for a moment—you will tell me if you are not happy for me to do so—I am happy, at the start of this debate, to

outline in broad terms how we intend to approach the provision of detail on regulatory plans for both this clause and other clauses as we go through the Bill.

I intend to provide, as I did last night, an advance briefing on each of the potential regulation-making powers in the Bill as we go through. Where it is practical to do so, we will provide draft regulations.

It is particularly striking how in this wonderful place the world can turn full circle. Some years ago, two hon. Members were on opposite sides of the House to where they are now. They had an exchange that ran as follows:

“One of the most profoundly concerning aspects of the Bill is the vagueness of its stipulations. There is no detail. The Bill basically says that the Secretary of State will decide everything and we are just enabling her to do that.”

The response was:

“I make no bones about my third introductory point: we want more education measures to be passed through secondary legislation than has traditionally been the case. Education measures have been out of step with other legislation, and thus have been unnecessarily inflexible and unduly prescriptive. The Committee will discuss the many instances in which greater flexibility would help to meet the different circumstances of communities throughout the country”.—[*Official Report, Standing Committee G*, 11 December 2001; c. 12-13.]

The tradition was for a large amount of detail in primary legislation, which meant that changes could not be made except through primary legislation, which was unnecessarily unhelpful and inflexible. Needless to say, our two roles were reversed in that debate nine years ago. I have learnt a lot from the experience of the right hon. Member for East Ham. I suspect that we have both had to reverse our positions somewhat for this Committee.

I will endeavour to be as helpful to the Committee as I possibly can, but the shadow Minister, from his own experience, will recognise that, while it is important to maintain flexibility and to provide as much as detail as possible to the Committee as we go through this debate, it is not always possible to provide everything that one could possibly wish to provide in a timely way. It is also desirable to wait until measures are further down the track before finalising the details of how to deal with what can sometimes be complex circumstances. I will do my best to be as helpful as possible to the Committee.

**Stephen Timms:** I am particularly grateful to the Minister for that nostalgic reminder. I draw his attention to what the Leader of the House said at business questions last week:

“On the Welfare Reform Bill, of course we will seek to publish the appropriate regulations well in advance so that the House has an opportunity to reflect on them.”—[*Official Report*, 24 March 2011; Vol. 525, c. 1100.]

Will he confirm that that is the intention?

**Chris Grayling:** I confirm that I am doing everything I can to ensure that the Committee has the earliest possible access to both draft regulations and information. The right hon. Gentleman will understand, however, that the area is complex. In some cases, the best approach that we can offer the Committee is a detailed breakdown of how we intend the measures to be used, which we have already provided. Certainly, that is so in the parts of the Bill that relate to more complex matters, such as universal credit. I have sought, at an early stage, to

provide information in as much detail as possible about the first 12 clauses, which should see us through a fair part of the debate over the next few sittings.

**Stephen Timms:** Can the Minister reassure us that his usual intention will be to provide information to us earlier than the night before the debate, which is what happened yesterday with the regulations?

**Chris Grayling:** Indeed. I am happy to provide information as early as possible—I have no problem with that.

I should make another point at the beginning of the debate. Clause 1 is, effectively, the defining clause of the first part of the Bill, because it sets out provisions for the universal credit. It, and the following clause, creates the framework for the new benefit. For want of a better way of explaining it, they will create a bookcase on which we can lodge the books of the detail of the future benefit system.

The Bill and the debate are about building that bookcase. We will do our best to explain our initial intentions about what should be put on the shelves, but as the right hon. Gentleman will be aware, the debate is not about the detailed content of every single book. I therefore intend to focus particularly on the fact that we are building a framework for the universal credit. Individual areas in later parts of the Bill will be matters of significant debate and relate to current decision making. We are enabling, however, the framework for future decision making about the nature of our social security system. In the same way that—year in, year out—decisions are taken about uprating and changes to our social security system, clauses 1 and 2 set in place the framework that will allow the Government and future Governments to make decisions about the structure of social security in this country. Clause 1 simply provides for the existence of a benefit known as universal credit and introduces part 1 of the Bill, which sets out the structure of the universal credit and the rules governing entitlement.

Many questions were raised in the evidence sessions, which we can discuss in future sittings. The Bill sets out clearly, however, the key features of the new benefit and how it fits with the rest of the system. It does not attempt to cover all details, much of which will, as usual, be left for social security regulation on a year-by-year basis. The provisions build in the flexibility for the Government and future Governments to vary decision making about large issues and small issues.

Hon. Members know that the Government are committed to reforming the welfare system to make it fairer and more affordable, and to tackling poverty and welfare dependency. A key part of that strategy is the introduction of the universal credit, which will replace existing benefits and the complexity of the existing system. In addition, it will replace tax credits with a single system that will guarantee, most simply, that work always pays. By combining support for people who are in and out of work, we intend to remove many of the barriers that keep people out of work. A single taper will ensure that the effect of earnings on entitlement to universal credit will be predictable and consistent, and will encourage claimants to progress in work.

The reforms aim to transform lives. We expect our initial plans to lift as many as 350,000 children and 600,000 working-age adults out of poverty. That is only

our analysis of the static effects of the reform, and we also believe that it will have a dynamic effect. Analysing such an effect is not easy, but by our conservative estimate, the reforms could reduce the number of workless households by approximately 300,000.

There has been much discussion about the effect of the measure on second earners. Overall, however, there is no doubt that the universal credit will increase the financial rewards to entering and staying in work. As measured by the participation tax rate, which looks at the proportion of earnings effectively lost through tax and reduced benefits on entering work, financial work incentives will be dramatically improved by the universal credit.

The number of households facing a participation tax rate of more than 70% will reduce by 1.1 million. We will also end the scandal of punitive marginal deduction rates, which reduce the incentive for people to increase earnings or hours once they are in work. Under the current system, people in work may see as little as a 4p increase in their take-home pay for a £1 increase in earnings, and people on out-of-work benefits may see their benefit reduced by £1 for every £1 they have earned. It is no wonder that many people doubt that work is for them and many in work feel trapped in low incomes.

The universal credit ends this through the introduction of the single taper which we have said we expect to be 65% of net earnings. This will reduce the maximum marginal deduction rates to 76p in the pound for taxpayers and 65p in the pound for non-taxpayers. That will significantly improve work incentives for some 700,000 people who currently face those high marginal deduction rates of in excess of 80%. In total, 1.5 million people will see lower marginal deduction rates, particularly people at the lower end of the income scale.

These reforms will deliver not only for claimants, but for the taxpayer. We expect that the plan will reduce administrative costs by more than £500 million a year and will reduce fraud and error by around £1 billion a year. Most particularly, we will all benefit if we succeed in moving people off welfare and into work. We are protecting existing claimants by ensuring that no one loses in cash terms as a result of the move on to the universal credit where their circumstances remain the same.

Clause 1 provides that the universal credit can be awarded either to an individual if they are not a member of a couple, or to a couple jointly. In the latter case, later clauses in the Bill provide that both members of the couple must claim universal credit jointly. I should stress that that is the way our current out-of-work benefit system, such as for jobseeker's allowance, works as well.

The clause sets out the way in which universal credit is calculated by reference to, first, a standard allowance, secondly, an allowance for children and young people, thirdly, an amount for housing and, fourthly, additional amounts for particular needs or circumstances, which we have made clear will include child care. Not all those amounts will need to be included in the calculation in any particular case. Above all, the clause lays the foundations for the universal credit—it does no more and no less than that. It is the basis on which we will debate the first part of the Bill. I commend it to the Committee.

**Stephen Timms:** Let me start by affirming where I agree with the Minister. The universal credit introduced by the clause is a good idea. The Government are to be congratulated on legislating for it. It should certainly simplify matters that in-work benefits will in future be handled by the same institution that deals with out-of-work benefits. A particular advantage will be that when somebody moves from being out of work to in work they will not have to claim a new set of benefits. It will simply be a matter of recalculating their existing benefit under the new system. It is also true—the Minister has made this point—that it will generally be easier to work out what somebody is entitled to and why under the new system. It is a good and a worthwhile change, which we have supported.

The change is not, however, a panacea. The Government are in danger of overselling the benefits of universal credit. The Minister has said that there is no doubt that many more people will find it more worthwhile to be in work than was the case in the past. According to the impact assessment, more people will see their marginal deduction rates go up as a result of the proposals—2.1 million people will see their marginal deduction rates go up and 1.5 million people will see them come down. The particular point that the Minister made about that is incorrect. This will not on the whole increase the work incentives and the rewards to work, but rather it will decrease them for more people than it increases them.

There is a serious problem about work incentives for second earners in a couple. The Minister acknowledged that in passing, but he did not address it, and we will further debate the matter later on. Those work incentives will be significantly reduced, and we know that if we are to tackle the problem of child poverty successfully, we have to encourage second members of a couple to enter work and those who are already working to increase their hours. These changes look as though they will make that harder. We need to acknowledge that the new system is going to be complicated. It is not going to be an easy and simple system to apply or understand.

10.45 am

There are a number of important decisions about universal credit that I think the Government have simply got wrong. For example, it is strange—given the virtues of the essential architecture explained by the Minister—that council tax benefit has been left out. In fact, this is not a universal credit—it is a not-quite universal credit. It is universal except for council tax benefit. That means that those who apply for help will have to deal not with one institution, but with the local authority as well. That is one simplification that could have been introduced.

It will apparently be possible for every local authority in the country to introduce a different council tax benefit scheme. Nobody looking at the situation centrally will know the position, which will depend on separate local authorities. We understand from newspaper reports that this is the result of a row between the Secretary of State for Work and Pensions and the Secretary of State for Communities and Local Government. Unfortunately, from our point of view, the latter won and the Secretary of State for Work and Pensions lost. The system is, therefore, going to be significantly less straightforward than it might have been.

We learned in last week's evidence session from the Local Government Association that local councils have affirmed, understandably, that they will need the real-time earnings data, which will be collected for the purpose of calculating universal credit, in order to calculate council tax benefit. That will significantly increase the risk around the IT that will be implemented for universal credit.

We simply do not know a lot of crucial details about the new system, and those details will determine whether people are better off in or out of work. The Secretary of State told us frankly last week—we have already touched on this—that the Government have not yet decided how child care support is to be provided in the new system. The details of that will be very important for whether a large group of people are better off in work and incurring child care costs, or whether they are better off staying at home.

We have no idea yet, as far as I can ascertain, how self-employed people are to be treated under the new system. I hope we are going to see some regulations on that. We heard from the Low Incomes Tax Reform Group last week that it looks as though the new system is going to be “a much worse deal”—I think that that was its expression—for self-employed people than tax credits provide at the moment. We do not know whether it will be possible to split payments of the different elements of universal credit between two members of a couple, so that payments relating to children can be paid to the main carer, usually the mother, to ensure that the children get the benefit of the payments. We do not know whether tenants will retain the option for housing payments to go directly to their landlords.

We will discuss many of those issues and others in Committee. Before I conclude this introductory comment on this Second Reading-style debate on universal credit, I want to draw attention to one major worry, namely the timetable for introducing universal credit. I do not believe that it is possible to introduce the IT and other arrangements so that every new applicant for benefit will be treated as an applicant for universal credit from October 2013. There are going to be a number of difficulties. The fact that it has not yet been possible to resolve how child care is to be supported is a good example of that.

I particularly want to flag up the worries about the IT time scale. I raised the issue with the Secretary of State last autumn, having read in the Green Paper last summer that the IT for universal credit

“would not constitute a major IT project”.

That is an absurd claim. It will certainly be a very major IT project, and the Government need to recognise that up front and to plan accordingly.

I have been grateful to the Secretary of State for his openness in discussing the issue. On his invitation, I have met officials twice to talk about the problems. Their view is that it took two and a quarter years to implement the employment and support allowance system from the Second Reading of the legislation—I was the Minister when ESA was implemented—so it is perfectly reasonable to implement the universal credit system in two and a half years, which is a little longer than we took on ESA.

Universal credit is, however, far more complex than ESA. We have mentioned the fact that we will have a real-time earnings system, and every employer in the

country will have to supply earnings data to the universal credit IT system every month for all their employees. That information will go to Her Majesty's Revenue and Customs, which will pass it on to the Department for Work and Pensions, and it now appears that that information will also be passed on to local authorities. The real-time, pay-as-you-earn system will be a very big challenge. I simply do not believe that the system's implementation will allow all new applications for universal credit to be dealt with by October 2013, particularly as we do not have two and a half years, given that key elements of the system have not been decided.

My hon. Friends and I will raise a number of concerns about the details of the universal credit, but I conclude as I started by affirming the Opposition's view that the essential idea behind the proposal introduced in clause 1 is a good one, and we support it.

**Kate Green** (Stretford and Urmston) (Lab): I join my right hon. Friend in praising the intentions in the legislation and the way in which the structure in clause 1 seeks to make work pay, to simplify the system and, therefore, to increase people's take-up of their financial entitlements. However, as the debate on the Bill proceeds, and despite claims that the universal credit will simplify our social security system, it is becoming ever clearer that it is unlikely to achieve that.

Apologists for the benefits system—I have been one for a long time—have often said that our system is complicated because it must meet a complex range of needs. That is exactly what we are beginning to understand as we tease out some of the details of the way in which the universal credit will deal with child care, which my right hon. Friend has mentioned, and with passported benefits. There is also the issue of how it will deal with the fact that there will be losers as well as winners. Obviously, it is possible to resolve that challenge, but only by throwing a great deal of money at it, and I guess the Government will not do that.

I particularly want to follow up the Minister's opening remarks about the impact on second earners and second members of a couple. I am concerned about the proposal's gender impact. Some of my concerns relate to the way in which the universal credit will be paid operationally, and some relate to the way in which it will incentivise or reward particular behaviour or family structures. I know that Ministers have been keen to remove what they have perceived as a couple penalty in the existing system, but in seeking to do that the present structure creates some potentially new couple penalties, not least because of the creation of a benefits cap. That was exposed to us in evidence from a number of our witnesses last week.

On the position of second earners and couples, I must say that I am concerned, because I thought that the Minister and, indeed, the Secretary of State in their evidence last week were fairly relaxed. Last week, the Budget Red Book revealed the extent of the losses that second earners and couples might face compared with the system before universal credit. I am concerned both about joint assessment and its impact on second earners, and about joint payment of the benefit. I accept what the Minister has said that our existing social security system—our welfare benefits system—also makes joint assessments, but our in-work benefits system through tax credits is much more subtle at rewarding the position of individuals.

I was also very struck by the evidence that we received from Professor Roy Sainsbury last week, when he said that the public as a whole favour individual assessment and individual arrangements. I want to see us working towards devising a system that meets the aspirations and preferences of the public rather than working against them.

**Charlie Elphicke** (Dover) (Con): Will the hon. Lady tell the Committee how much it would cost if we were to move to individual assessment?

**Kate Green**: Naturally, that is a serious question and one that it is right to ask. I am not suggesting that we would move to individual assessment immediately today. However, we are taking a step backwards from the current system and from the way in which the tax system operates, where we had—rightly, in my view—an independent approach to assessment for a very long time.

It is important that we at least have an aspiration that meets the wishes of the public at large, even if it is difficult to implement it on financial grounds in the financial circumstances that we find ourselves in at the moment. I am concerned that, in laying down the structure of the universal credit, we are losing that sense of direction of travel.

**Sarah Newton** (Truro and Falmouth) (Con): According to the risk analysis, 2.7 million households will be entitled to higher benefits under universal credit and 85% of the gains will go to households in the bottom two quintiles. Therefore, does the hon. Lady agree that the measures are welcome?

**Kate Green**: Indeed, the measures are welcome, or they would be welcome if we were not starting from a position whereby billions will have been stripped out of the benefit system before we get to the introduction of universal credit as a result of last year's spending review and the emergency Budget, which have caused considerable pressure on household budgets well before the introduction of this new benefit.

I just want to explain a little further the impact on couples, because that is an issue of real concern. Some measures may be susceptible to improvement, and it may well be that we can persuade the Government to accept some of those improvements as we debate the Bill. We already have indications that it will be possible to pay elements of the benefit to different members of the household. For example, as my right hon. Friend the Member for East Ham has said, we could ensure that benefits for children are paid to the main carer of children in a household, and we could ensure that benefits to meet housing costs are paid to the person in the household with the rental obligation.

At the moment, those suggestions appear to be possibilities within the Bill. I want to see them properly firmed up to protect individuals and children in households. I hope that we will have the opportunity to debate them as we go through the Bill, and perhaps we can amend or strengthen the Bill to ensure that protection of individuals and children can generally be achieved.

**Harriett Baldwin** (West Worcestershire) (Con): My understanding of the Bill is that child benefit is not affected or changed at all by it. Will the hon. Lady confirm that that is her understanding?

**Kate Green:** That is also my understanding, and I am very pleased that child benefit has been left outside the universal credit system, for the reason—as much as anything—that it will ensure that at least some money that can be relied on is directed straight to the main carer of children without any implications in terms of what is going on in the household as a whole. That is welcome, but of course under the present system that also happens for child tax credit and potentially for a number of other payments. It is important that we protect the best of the existing system, not just in terms of who the payment is made to in the household but in terms of the sanctioning arrangements around those payments. I am very concerned that the arrangements we have now to protect payments for children from the impact of sanctions are read across into the universal credit. Again, that is an issue that I hope we will have the opportunity to clarify as our debate proceeds.

I want to say something about the incentivising structure in the universal credit and the way in which it is calculated on a household basis. It is clear that the Government have been juggling a choice about whether they should ensure that people who are in work are progressing sufficiently far in work to lift their family or household out of poverty. The route that they have taken is to make it possible for one earner in a couple to get reasonably far into deriving income from work to support their household, but not necessarily far enough to lift them out of poverty. However, they have certainly disincentivised a second earner to contribute effectively enough to the household income to lift the family above the poverty line. That was highlighted by Dr Patrick Nolan of Reform in his evidence to us:

“If I am already working and I have a partner who is a second earner and who wants to go and work as well, the disregard will not improve the incentives.”—[*Official Report, Welfare Reform Public Bill Committee*, 22 March 2011; c. 14, Q12.]

11 am

There are several reasons why I am concerned about the potential second earner in a couple. First, it is an issue of women's financial independence, which has been hard won over many generations. I am always wary of seeing us take a step back from that. It is especially important when we recognise that, regrettably, many relationships break down, and that many women who raise children as part of a couple could experience at least some period as lone parents. We should do everything that we can to ensure that those women are in touch with the labour market and working while they are in a couple, as that will significantly increase the likelihood that they will stay in work if, tragically, they become lone parents. As we know, it is much better for her children's financial circumstances when a lone parent works, but she is less likely to move into or stay in work as a lone parent if she spends a long time out of the labour market while living in a couples arrangement. I am afraid that the structure of the universal credit will probably increase that likelihood.

**Priti Patel** (Witham) (Con): I am interested in the case that the hon. Lady is making, but has she not assumed that the second earner in any household will automatically be a woman?

**Kate Green:** The hon. Lady is right. It is not invariably a woman, but we know that generally, women earn less than men. That is partly due to lower participation in

the labour market, including a tendency to part-time participation. The design of the benefit is part of the structural difficulty of adequately rewarding and remunerating women's work.

**Charlie Elphicke:** It pains me to do so, but I must take issue with the hon. Lady. Life has moved on. Generations change. It is now normal for couples to be evenly balanced in the labour market. The distribution of economic power is no longer all to the men, with the women stuck at home. In 60% of couples, both work. That is my generation's experience. Is her view not a little dated?

**Kate Green:** I am delighted to welcome the hon. Gentleman to the cause of feminism. If only the rosy picture that he paints of gender equality in the home and the workplace were true. However, the fact is that women still fulfil the bulk of caring roles, nine out of 10 lone parents bringing up children on their own are women and the gender pay gap remains at about 20%, or higher if we take account of part-time work, which is typically done by women. We still have a long way to go to achieve the structural equality to which he and I aspire. I am afraid that I live in the real world and not the world as I would like it to be.

The other reason why it is so important that we ensure that second earners are properly supported and incentivised to be in employment, especially now, is the impact of recession. At the moment, the first earner—to use the term as shorthand for the family structure that we are discussing—might be more vulnerable to unemployment as a result of the impact of recession. Having a second earner in the household who is already in the labour market is important to protect family incomes in difficult economic times. That is why I am concerned about the implications of the structure of the universal credit for second earners. I look forward to further debate on it as the Committee proceeds.

**George Hollingbery** (Meon Valley) (Con): I seem to recall that we received evidence last week from Professor Gregg that there was basically an either/or choice. Either we could decide to put people in work who would then find it difficult to extend their working hours, or we could support people already in work to work more and earn further. He was clear that in no system in the world was it affordable to do both. The hon. Lady said that she wants to work in the real world and not in the world as she would like it to be. Does she think that it is wrong to incentivise people at the lower end back into work, or does she think that the existing system is the right way forward?

**Kate Green:** That is a helpful intervention. The hon. Gentleman rightly exposes the dilemma that Ministers are grappling with. That leads me to another downside at the moment to incentivising people to do any work, which is the proposal to introduce the mini-job. In general, we welcome aspects of financial reward for people working very small hours of work, but it is important that that is a stepping stone, not a destination. We will not see families lifted out of poverty if we design a benefit that rewards people for eight or 10 hours work but does not give much advantage for significantly increasing the hours of work in the household. The hon. Gentleman has highlighted an important point.

I would like to talk about a few other aspects of the structure of the universal credit, as well as the second earner/ gender issues, which cause me a little concern. As I have said, I am concerned about the need to protect children within the structure, and I hope that we will be able to talk about the payment to them in here and avoid sanctioning benefits that are intended for children within the payment to a couple or household as a whole.

**Sarah Newton:** I know that the hon. Lady shares a deep passion in lifting people out of poverty. Surely she will welcome the impact assessment, which specifically states—without including any benefit of incentivisation to get people back to work, but just looking at the impact of the universal credit—that more than 350,000 children and 600,000 working-age adults will be lifted out of poverty. That is a total of 950,000 individuals, and surely that is to be welcomed.

**Kate Green:** Of course it would be welcome to see such figures delivered, and I very much look forward to such progress. In fact, that leads me to one of the other areas that I have some questions and concerns about, and that is the assumptions about the way in which the design of the credit will help to achieve some of those good outcomes. It relates particularly to the arguments made by a number of our witnesses last week, that the ostensibly simpler benefit will lead to increased take-up. I hope and believe that that will be the case, but it is important to be careful to position the benefit in a way that does not attract stigma or put people off claiming. That has been a concern with other benefits that already operate in and out of work. Housing benefit is an excellent example, where there is significant under-claiming by in-work households of a benefit to which they are often entitled. Therefore I am anxious that we do not position the benefit as one for scroungers or just for poor people. I would be interested to know how we can collectively ensure that the public understand that this is a benefit to which all low-income households, working or not, may be entitled, and positively encourage them to maximise and take up their full entitlement.

**Charlie Elphicke:** Is that not particularly important? I do not know whether the hon. Lady has seen as the latest survey on households below average income. According to the latest figures, the percentage of working-age adults in poverty has risen since 2000-01 from 19% to 21%. Is that not a real concern? Is that not what the Government are trying to turn around?

**Kate Green:** Take-up is always a concern, and take-up among working-age adults without children and pensioners has been particularly poor. Families with children are more likely to take up their full entitlements because they need to if they are to keep their family together. I certainly recognise what the hon. Gentleman says, but my point is that we must be sure that the take-up is achieved in the context of the new benefit. I contrast the current attitudes to social security, which are largely derogatory—it is not a much-liked system among the public—with the attitudes to tax credits, which are seen to be complicated and often cause problems to people, but have no stigma attached. That is because they stretch far up the income scale and are seen within the context of the taxation system, and it is important for the Government to replicate that lack of stigma in the new benefit.

**Jenny Willott (Cardiff Central) (LD):** Surely the hon. Lady will agree that one of the benefits of having a system that includes everything, rather than have people applying for separate benefits, is that because more people are likely to need at least one element of what is in the universal credit, they will apply for it and, by applying, get everything to which they are entitled? It will have the broad appeal that the tax credit system has, without the disadvantage that people then have to make separate applications for other benefits. That will mean that take-up will be much higher across the board and that people get the money to which they are entitled.

**Kate Green:** I certainly hope the hon. Lady is right. As my right hon. Friend has already mentioned, a number of important benefits will be outside the universal credit. There may be a single application process for those, although I am not clear how that would work when local authorities are making determinations for council tax benefit and I am not clear how people will be able to get information about their claims from the Directgov website in those circumstances. But accepting, as the hon. Lady says, that most benefits will be in a single benefit pot and therefore take up one, take up all, I have a related concern. All the eggs will be in one basket and so what happens if one element of the payment goes wrong? We know that happens repeatedly. Something may go wrong with a housing claim, but a claim for child benefit can still run perfectly smoothly. That is why we will explore the way in which those different elements of the benefit can be protected. That is an important concern.

I have only a few more points to mention, hon. Members will be glad to hear. I am concerned that payments will be made monthly, which for some low-income households on tight budgets is very difficult to manage. I am also concerned about the real-time information to which my right hon. Friend alluded. Like him, I am doubtful that we will have all the information flowing through the IT systems by 2013, not least because we know that not all employers will even come on to the real-time information system then. Many of the smaller employers will come on over a much longer period. Given the substantial number of people who work in small and medium-sized enterprises, we are unlikely to get to 100% of the potential claimant base on real-time information any time soon. That excludes the self-employed, for example.

I am also concerned that the real-time information picks up information about people's income and their earnings but we know, particularly from the experience of tax credits, that the issues of complexity have not largely arisen from a lack of income information but from a lack of information about all the other changes in people's circumstances. It is not clear that the real-time information IT system makes any difference to gathering and interpreting that information.

**Paul Uppal (Wolverhampton South West) (Con):** The hon. Lady highlights her concerns about monthly payments. Does that not tie in with the ethos of the Bill? If we are genuinely preparing people for work, budgeting on a monthly basis is what they will have to do when they go to work. Does that not set that stepping stone to entice people to pursue that route and get into work and budget on a monthly basis?

**Kate Green:** I understand the policy intention. It is important to remember that many people to this day do not receive a monthly pay cheque. People who are in casual and agency work, and who are in and out of work, are used to receiving a lot of their money weekly or fortnightly. Even if the intention to mimic the pattern of those who are in more stable employment by moving towards monthly payments is correct, we must ensure that the poorest families, those who are really struggling to make ends meet at the end of the month, are not left with no cash at all.

A substantial proportion of families—I cannot remember the exact figures, but it is in excess of 30%—already run out of money at the end of each week. That situation is likely to be greatly exacerbated under a monthly payment system and I hope we will be able to debate that. In conclusion, I welcome the intentions of the universal credit but I have concerns that the design of the benefit may work against some of those intentions. I have concerns that it may disadvantage some of our most vulnerable families and I look forward to being able to explore all those issues during the Committee stage.

**Sheila Gilmore** (Edinburgh East) (Lab): Those who have worked a long time in housing, general advice and social security may appear a bit cynical as we have heard previous briefs from various Governments of solutions to certain social security problems. We may be slightly on the cynical side, but that is also because the issues are complex. People's lives are complex. This is not a new idea. We have been discussing this sort of idea in the field for 40 or 50 years. Previous attempts have often ended up with a system that, while purporting to simplify, made things even more complex. I hope that Government Members will understand some of the apparent views that have come from those who have given evidence, those who have commented in the public sphere and from some Opposition Members.

11.15 am

The Minister, in opening—he may not have intended to imply this—seemed to suggest that creating a simple system in itself would make work pay. What will actually make work pay is a number of different items, of which benefit payments are part. So much depends on the detail. That is why it is difficult. The Minister described this as a bookcase. How useful and good that bookcase is depends on what is in it. It may be a lot of cartoon comics. It may be a set of classics. For most of us, it is a mixture of various things—if we have eclectic tastes. That is why so many of the witnesses and I feel that it is important to be clear about the detail here.

One of the issues that was raised by some of the witnesses, which has still not been fully addressed, is that if people will not be worse off than they were when this benefit is introduced, what will the transitional protection mean? The issue of changes in circumstance have been raised. What will be the change in circumstance that will bring an end to transitional protection, given that there are many changes in circumstance that can arise? Those include the birth of a child, the child leaving the period of being dependent, a new relationship being formed or a relationship breaking up, as well as all the changes to work patterns. There are numerous changes and, to have confidence, people need to know which of those would lead to the end of that

transitional protection. If it is all of them, or any of them, transitional protection may be rather more limited than it sounds.

**Sarah Newton:** The hon. Lady seems to be asking the Government for a manual to go on her bookshelf. People's lives, as she described, are chaotic. I understand that people have complicated, difficult and dynamic lives, as do the housing and labour markets. If the Government were too prescriptive at this point in time, how could they best respond to the changing circumstances to support those people into work?

**Sheila Gilmore:** I do not think that there is any suggestion that there will not be a manual. I do not know of any situation within social security law where there has not been a manual made of many regulations. Advisers have their manuals. Many of us have been grateful to organisations such as the Child Poverty Action Group and the manual that it produced to assist people through their benefit claims. There will be a manual, because no Government would ever leave it so open-ended that there would not be a set of rules and regulations. Given that there will be a set of rules and regulations, there is concern about what exactly the reforms will mean.

**Ian Swales** (Redcar) (LD): Is the hon. Lady aware that the head of the civil service in the DWP told the Public Accounts Committee that the complexity of our system meant that £1 billion of error by DWP staff was an irreducible minimum? That amount of error was because of the complexity. He specifically discussed the number of manuals that his staff had to deal with.

**Sheila Gilmore:** Simplicity is the goal, which so many of these reforms have striven for. No one would argue that we want to continue to have a bookshelf of manuals, if that can be avoided. The first issue is whether simplicity is as easy to achieve as is implied, given the range of circumstances that will be covered. The benefit is not just a basic payment for people, but will involve meeting their housing and child care costs, making the arrangements for what are currently passported benefits and deciding what kind of additional payments will be paid to people who are disabled. Obviously, I hope that there will be less complexity; I do not think that any of us wishes for more. It is important to make the system easier for everyone involved to understand, whether they are staff, advisers or the people who need the benefits.

My opening point was that the proof of all the changes will be in the detail. Ultimately, whether the single system makes work pay for people and makes them better off depends on that detail. It is a matter of considerable concern that many people already in work are, by definitions of poverty, still poor, and the hon. Member for Dover referred to that. People working in the field have been concerned about how and why that is happening, and about how we can come out of that, because strenuous efforts have been made over the past 10 or more years to have more people in work and, particularly for single parents, to provide the financial backing to enable them to get into work.

Before the tax credits system, Britain had one of the lowest proportions in Europe of single parents in work. I used to think that that was a very bad thing. It meant that not only were many single parents extremely poor,

but that, ironically, they spent more years out of work than women with partners. When their children were less dependent, they were much less able to return to the work force, because they had not had that experience, whereas someone with a partner was often able to do so.

**Charlie Elphicke:** I find myself completely agreeing with the hon. Lady on that point. Does she welcome, as I do, that the Budget Red Book—in table A.2 on page 80—makes it clear that a lone parent with one child will get £20 after 10 hours' work without the universal credit, and will get £53 with the universal credit? There is therefore an incentive for part-time work. Is that not positive and great?

**Sheila Gilmore:** Anything that enables not just single parents—but certainly single parents—to do that is to be welcomed. That is precisely what one of the big achievements of the tax credit system has been. However, people in work might still remain poor, including single parents in work and couples where there are one or one and a half earners in a household.

Some of the matters will be outwith the benefit system. One of the primary reasons for people being poor in work is that many jobs pay very poorly, which I accept is outwith the remit of the Bill. Without overselling this, but there is a real risk that people in—particularly part-time—low-paid employment will remain poor on any definition, frankly because wages are very low and many jobs do not go far. There are issues about training and about people having opportunities to progress in work, but not all jobs have progression and it is difficult to say where people can progress to. Earnings have remained very low and if we are serious about wanting to deal with deprivation and poverty, at some point we will have to address that. If we do not do so, we will simply pump more and more benefit money in to prop up very poor families, which is not particularly desirable.

In looking at the Bill—people will expect us to vote on it and ultimately to decide whether it should be supported in its entirety—we will ask for detailed answers to such questions and we will be right to do so. That will be important for us, because otherwise we will be buying that empty bookcase, which is a difficult thing to sell to people.

**Chris Grayling:** This has been a helpful start to the debate. I shall not respond to all the points that have been made, because several issues that have been referred to in the past few minutes will come up at different stages of the Bill, and it would be a mistake to have duplicated debates. However, I will respond happily to the broader issues that have been raised. The hon. Member for Edinburgh East talked extensively about my bookcase, but it is not her job in Committee to give each detail of the books that are going to fill that bookcase. Our job is to create a framework for the future of our social security system.

The decisions that we must make in Committee are about the creation of that framework and of a vehicle for the Government, future Governments and Opposition politicians who will argue different cases and set detailed plans for our social security system, such as on how much money should be paid for each element of the universal credit. What specific elements should be involved? For example, there is flexibility under the Bill for a

future Administration to adapt and deliver different elements of the universal credit to deal with circumstances that we have not yet envisaged.

The Bill is all about creating such a framework. I know that questions will be asked during the debate, and we will do our best to set out our policy intentions to the Committee. We cannot be accused of not having published detailed information about the impact of the measures and the nature of our proposals. We have published vast amounts of information about the impact of our proposals and the core plans on the taper, but the debate will not populate in fine detail all the future structure of our social security system.

Let me touch on the matters raised by the right hon. Member for East Ham, the shadow Minister. He referred to marginal reduction rates. The key change under the Bill is that it brings down the rate from a point that we would all agree is ludicrously high to a sensible level. We talked about the figure of 76%. The increase from 73% to 76% is relatively small. That is the decision that we have taken given the resources available to us. During our proceedings, we will, of course, discuss several decisions that we have had to take in the context of the financial situation that the nation faces, the situation that we inherited from the previous Government last year and the best way that we have found to balance a number of conflicting pressures.

**Stephen Timms:** Can the Minister confirm that those who were paying a marginal reduction rate of 73% before the June Budget last year actually had a marginal reduction rate of 70% so, in fact, the increase is 70% to 76.2%? People were receiving 30% of their extra pay to keep. Now, it will be 23.8%, which is a significant loss in work incentives.

**Chris Grayling:** That is why we have said that no individual will lose out in cash terms as a result of the changes. When taking a complicated system and putting it into a streamlined pipeline, adjustments are bound to be made. That is why it is so important and central to our plans that there is a guarantee that no individual will lose cash as a result of the migration from the previous system to the new system until and unless their circumstances change.

The shadow Minister referred to council tax. I shall not talk about that in great detail now because we will be talking about it later in our proceedings. I reassure him that he should not believe all he reads in the papers about rows in the Government. The Secretary of State for Work and Pensions and the Secretary of State for Communities and Local Government are working closely and well together on such matters. It is part of our desire for a stronger element of local decision making. Creating stronger work incentives at the heart of the programme is of benefit to all the public sector organisations involved in social security. Local government is more exposed than any other part of the Government's system to the impact of worklessness, so it is clearly in the interests of local government to have a system for the future in respect of council tax benefit that balances localism with the incentive to make work pay.

The right hon. Gentleman made several points about the IT timetable. I pay tribute to the work done by the Department. Much of it took place under the previous Administration. As he will be aware, there is a good

[Chris Grayling]

team at the Department for Work and Pensions with good experience in delivering complex systems. He should take credit for having supervised the introduction of the complex employment and support allowance system, a much more complex system than that for the universal credit, with more points of interaction. The universal credit system has about half the interfaces that the ESA one has.

11.30 am

**Stephen Timms:** That line of argument worries me no end. The key risk for the new system is the real-time PAYE earnings data, with every employer in the country supposed to send in data every month. There is nothing like that in the ESA system. I have had this discussion with officials: ESA was effectively an in-house—largely in-Department—system, whereas universal credit has big and risky interfaces with every employer in the country and now, it appears, with every local authority as well. I hope that the Government go into this recognising how big the risks are.

**Chris Grayling:** We recognise that this is a significant development—it is a major project. On the IT system needed to migrate the existing benefits structure to the new one, the Department is working with significant existing systems and we have recent experience of the work that the right hon. Gentleman himself led when the employment and support allowance was introduced. He is right to say that we are using real-time data for the first time, but those data will be provided to HMRC through the routine monthly PAYE system, and we will simply tap into those figures to make universal credit calculations. We are well down the path of getting initial piloting work done, and are confident that the system can be delivered—but only time will tell.

**Teresa Pearce** (Erith and Thamesmead) (Lab): Does the Minister believe that there will need to be a change to the independent taxation system to obtain the tax and pay data of one partner to deal with the benefits of another? At the moment, confidentiality comes in, and HMRC is not allowed to share the income details of one partner with another. Will there need to be a change in the legislation to make that happen?

**Chris Grayling:** I do not believe so. At the moment, it is standard practice within the benefits system for individuals to make joint claims, and a household claim for universal credit from two people will need to be a joint one. The system will, on an automated basis, calculate the amount due. There are a number of data-sharing provisions in the Bill, as the hon. Lady will know, which set out ways of improving the flows of data across Government to maximise the effectiveness of our work, both to provide support to people and to ensure that we take action when the system is used inappropriately. However, I do not believe that what she has just described will be a problem.

My other point, in relation to the comments made by the hon. Member for Stretford and Urmston, is that universal credit is primarily designed to improve work incentives and to end the blight of workless households. As she will know, there is an unacceptably high number

of such households in this country, with an unacceptably high number of young people growing up in them—one of the highest proportions in the European Union. Universal credit is particularly designed to help improve work incentives for the first earner, so that we break that blight of workless households. We have heard the overall impact figures already—350,000 children and 600,000 adults lifted out of poverty—and we should be proud of and aspire to that as a core priority.

One problem with what the hon. Lady suggests—individual assessment—is that it is not just about expense. In our existing benefits system, we handle jobseeker's allowance by putting couples together. It would be a huge expense to Government to move to a system of separate assessment for individuals within the benefits system, and that would have the effect of diverting Government resource to people much higher up the income scale. If we gave independent assessments to two people with moderate income levels—doubling up—that would significantly shift our resource to higher income households. Those are the two reasons why it is not sensible to countenance moving to individual assessment of universal credit.

I accept the hon. Lady's point about stigma. It relates to the language that we all use. We cannot control the language that some people use, but I am always careful to try not to stigmatise people who make benefit claims. However, I think that she is wrong; the introduction of universal credit will help. The credit will be paid to people in work as well as those who are out of work, so it becomes less easy to stigmatise individuals who are in receipt of it. I think it will help address the problem to which she refers, and in that context will help to increase take-up. We project a significant increase in the take-up of benefits as a result of the introduction of universal credit.

The hon. Lady expressed concern that mini-jobs should not simply be a static position; I share that view. Particularly for people with disabilities, the chance to take a small step back into work—this system allows people to do that in as simple and flexible way as possible—is a very good way to help them to make the move from unemployment with a disability through to building themselves back into a role in the workplace. We believe that the ability of the universal credit to offer people the opportunity to start mini-jobs and take those first few steps into the workplace is one of the big benefits of the new approach. Of course, it is the taper that really delivers the incentives to continue to maximise the number of hours worked and move up the employment scale.

The hon. Lady will be aware that one of the big barriers in the existing system is when, for example, a lone parent is working around 16 hours. If they are offered more hours at work, the point comes at which it just does not pay to work them. That is something that I want to see change.

**Kate Green:** I understand the Minister's analysis. Would he like to comment on the evidence that we received from Professor Paul Gregg? In recognising the problems of the cliff edge at 16 hours, he also highlighted the fact that some people whose hours are currently clustered around the 16 hour mark might choose to reduce them now that the mini-job will be incentivised.

**Chris Grayling:** I do not accept what Professor Gregg says. Certainly, every individual will take a decision that suits their own needs and circumstances. We have talked about second earner issues, and it is certainly true that, in some households, the universal credit will give one or other parent greater freedom to invest more time in bringing up their children now that the system has made it more attractive for the first earner to be in work and increase their number of hours. The benefit of this system is that it enables people to take sensible decisions around their own circumstances. Since the underpinning principle of work always paying will be ever present, in my view it will encourage households to increase the amount of time that they work and take further steps up the income scale and in employment, and that will benefit their children, families and society.

**Stephen Timms:** I am not confident in the Minister's optimism. I think he is recognising that one result of the 16-hour rule as it currently stands is that there are a lot of part-time jobs available at about 16 hours, or just over. Without the presence of that step, is there not a danger that a lot of employers will find it much more convenient to offer fewer hours to part-time workers—eight or 10 hours a week? That would provide very attractive flexibility to employers. Is there not a real danger that people will be forced to work for a shorter period than they are able to at the moment?

**Chris Grayling:** I do not think that that will happen at all. An employer will take a decision about the work they offer based on their needs and the team of people they have with them. I think probably every member of this Committee, at some point in their constituency work, has experienced someone asking, "Is it sensible for me to work a few more hours?" That is usually when an employer has somebody good and wants them to do more work, but that person is unsure that it pays to do so. That must change.

**Jenny Willott:** Would the opposite not also apply? There may be employers who cannot afford to recruit somebody to work for 16 hours a week, but if it is more possible for people to take up jobs at 10, 12 or 14 hours a week we might find that people actually create jobs with slightly fewer hours because they know that there will be people who are able to take them up? At the moment there is the hurdle that you need to be able to offer 16 hours if you want a good pool of people to recruit from, and some employers cannot afford that.

**Chris Grayling:** My hon. Friend is absolutely right. She will also realise that if somebody in that position goes into work for fewer than 16 hours a week and makes a real contribution to that organisation it will improve the chances that they will stay there.

I welcome the tone of the debate so far. I think this has been a very useful starter and context-setter for discussion of the Bill as a whole. I genuinely appreciate the spirit in which the shadow Minister has approached the issue. We will undoubtedly debate intensely some of the detail of the Bill, but we genuinely welcome the support that has been provided for the principle of the universal credit.

*Question put and agreed to.*

*Clause 1 accordingly ordered to stand part of the Bill.*

## Clause 2

### CLAIMS

*Question proposed,* That the clause stand part of the Bill.

**The Chair:** As clause 1 is a general clause and we were at the beginning of our deliberations, I allowed a fairly general debate. However, from now on we perhaps ought to focus our attentions specifically and exclusively on the detail of the clauses under debate.

**Chris Grayling:** I certainly take note of those remarks, Mr Gray. Indeed, we have consciously not set knives for this debate, as has sometimes been the case in Committee, because I would like to give the Committee the opportunity to have a free-flowing debate. However, on the detailed clauses, I intend to keep my remarks as brief as possible, so that we can make good progress. I hope that others will do the same and that we can work our way through the debate and discuss as much of the Bill as we possibly can.

Clause 2 sets out the basic rules for claiming the universal credit. In common with existing benefits, a person will normally be entitled to universal credit only if they make a claim for it. The clause sets out additional requirements for universal credit, depending on whether the claim is made by a single person or by a member of a couple. A claimant who lives as a member of a couple is required under the clause to make a joint claim with the other member of the couple. That is because under the universal credit, both partners have a personal responsibility for the accuracy of the information provided as part of the claim. In addition, they will both need to meet the labour market conditions relevant to their circumstances. The intention of these rules is to ensure that every adult benefiting from universal credit does all that they can to limit their dependency on the welfare system.

For universal credit, a couple is defined as two people with a close personal relationship, such as a marriage or civil partnership, who are members of the same household. The claimant who is not living as a member of a couple is required to make a single claim for universal credit. Like members of a couple, single claimants will have responsibility for providing accurate information and appropriate levels of labour market conditionality. Clause 2 goes on to provide for regulations that can make exceptions to that rule. For example, if one member of a couple does not have a right to reside in the UK and therefore is not entitled to universal credit, the other member of the couple is able to make the claim as a single person. The clause provides for an important part of the fundamental rules governing universal credit.

**Stephen Timms:** I simply want to ask a couple of questions about clause 2—I think what I am asking is a question about a book on the Minister's bookcase. As he has indicated, this is the first clause with a regulation-making power. He has sent us a note about the regulations that will follow. I want to pick up on the point he has made in the note—he has touched on this—that there will be situations in which a joint claim has been made on behalf of a couple and it needs to be treated as a claim by a single person, and a claim that has been made by a single person needs to be treated as a joint claim by a couple. The note does not tell us very much

[Stephen Timms]

about what those situations are—although he has given us the example of somebody who does not have the right to reside in the UK, and I can see that that would lead to a situation of this kind.

The note that the Minister sent us appends the existing regulations on jobseeker's allowance and tax credits. Is the intention effectively to use the existing JSA list? Will that be the basis for the new regulations or will this be rethought from scratch? Perhaps some of the JSA exceptions will not be allowed. I am asking what approach he will be taking. That sort of issue will crop up a lot as we merge different benefits together. They have all got rather different rules, and one of the advantages of a universal credit is bringing those rules together. How will that merger be effective?

**Chris Grayling:** Broadly speaking, the intention in the Bill in a number of places is, where there are provisions within the existing social security system, simply to apply the status quo in relation to a number of the technical issues such as joint claims. We certainly expect to create a new set of regulations for universal credits. When we sent round a copy of an existing regulation, in the note we informed the Committee of how things are handled at the moment and indicated that, broadly speaking, we intended to adopt the status quo. We do not intend to make changes to the rules as such. There is no intention of taking a simpler approach than in JSA at the moment or in tax credits.

11.45 am

We have set out the situation for the Committee and provided the existing regulations so that the Members can see where we intend to transpose, in effect, from the existing system into the new system. I gave the hon. Gentleman an example of a particular case, but I assure him that there are not many examples of where the provision might apply. We do not intend to make changes beyond the existing provisions that would, for example, relate to a joint JSA claim.

*Question put and agreed to.*

*Clause 2 accordingly ordered to stand part of the Bill.*

### Clause 3

#### ENTITLEMENT

*Question proposed,* That the clause stand part of the Bill.

**Chris Grayling:** Clause 3 introduces the entitlement conditions for universal credit, which are set out in detail in the following clauses. It is really a signpost clause that simply sets us up for what I suspect will be a longer debate on clauses 4, 5 and 6.

Universal credit is a benefit to provide support for people on low incomes whether they are in or out of work. It follows that the entitlement conditions include conditions related to a person's financial circumstances. However, as with existing benefits, other conditions will need to be met in addition to those relating to financial circumstances. In the Bill, they are called "basic conditions".

The clause provides that universal credit claimants need to meet the basic conditions, which are in clause 4, and the financial conditions, which are in clause 5. Claimants must meet the same basic and financial conditions whether they are single claimants or claiming as part of a couple. As I explained in the debate on clause 2, claimants who are members of a couple have to make a joint claim for universal credit. As a general rule therefore, they both need to meet the basic conditions for a couple in order to receive support. We recognise that there needs to be some scope for exceptions, and further details of how the benefit will work are set out in subsequent clauses.

*Question put and agreed to.*

*Clause 3 accordingly ordered to stand part of the Bill.*

### Clause 4

#### BASIC CONDITIONS

**Stephen Timms:** I beg to move amendment 4, in clause 4, page 2, line 15, leave out '18' and insert '16'.

**The Chair:** With this it will be convenient to discuss amendment 5, in clause 4, page 2, line 24, leave out 'prescribed cases' and insert 'claimants who come within section 22'.

**Stephen Timms:** This first group of amendments was tabled before the Minister sent us last night's note on the regulations that clarified some of the points I wanted to raise.

The amendments are about youth eligibility for universal credit. Specifically, they would make it clear that the minimum age for receiving universal credit was 16 rather than 18 as stated in the Bill. That change would put in primary legislation an important protection, which is particularly important for vulnerable young people. At the moment, 16 and 17-year-olds can claim means-tested benefits if they are in a vulnerable group, for example if they are themselves lone parents, carers or responsible for a child, if they have a limited capability for work or if they are estranged from their parents and in difficult circumstances. Housing benefit can be claimed by 16 and 17-year-olds to meet liability for rent. They can also claim working tax credit if they are responsible for a child or have a disability.

I think that I am right in saying that only jobseeker's allowance excludes under-18s, and even then there are exceptions in regulation for cases of severe hardship. I am disappointed that the least generous position among all the benefits being merged has been chosen as the position in the Bill. It would be better to make it clear that there are circumstances in which 16 and 17-year-olds would be entitled to claim universal credit. The note that the Minister sent makes it clear that that is the Government's intention. I think they would want to replicate the current position in regulations as far as they can. However, the point of the amendment is to make it clear on the face of the Bill that 16 and 17-year-olds are not excluded from receiving universal credit in a blanket way, as a cursory reading of the Bill would suggest.

The point of the second amendment is to enable the Government to replicate the current position on JSA eligibility by allowing a higher eligibility age for those subject to work-related requirements, as set out in clause 22, as opposed to people with limited capability for work, carers or lone parents who are not subject to all work-related requirements and are covered instead by clauses 19 to 21. I am grateful to the Child Poverty Action Group, which suggested both amendments. I think they are right and I hope the Minister will be sympathetic to the intent they convey.

**Chris Grayling:** Amendment 4, as the shadow Minister has said, proposes that entitlement to universal credit would usually begin at the age of 16 rather than 18, as we proposed, apart from particular exceptions. Amendment 5 proposes that only when a claimant is subject to all work-related requirements should it be possible to set a different age limit. It would be wrong to set a default position that 16 and 17-year-olds, except those who are subject to all the work-related requirements, were entitled to universal credit in their own right. To do so would send a wrong message to the public about the status of young people.

The context is that successive Governments, both this one and the Government the right hon. Gentleman was part of, have taken the view that 16 and 17-year-olds should be in education or training and not living on benefits. The system we have inherited is designed on that premise. We think it is the right approach. We have confirmed that we are committed to continuing the previous Government's policy of raising the age of participation in education or training to 17 in 2013 and 18 in 2015. In light of that, and given that we are talking about writing primary legislation that will sit on the statute books for a significant period, it would be both inconsistent and regressive for the benefits system to treat 16 and 17-year-olds as ordinarily independent from their parents. The current system of child benefit and child tax credits gives parents the means to provide for dependent young people. We will maintain that provision through an amount of universal credit paid to parents for their children, and that will not change. Child support is an important part of what happens through the universal credit.

There are instances when young people should be able to claim universal credit in their own right, but they should be the exception, not the rule. Let us be absolutely clear to those listening from outside that we aim to continue the goal of the previous Government to support young people who find themselves in straitened and difficult circumstances, through leaving care, family break-up or whatever, at the age of 16. There are circumstances when those people will need support. In the current benefit system, when 16 or 17-year olds have a responsibility for a child, when they are disabled or when they are estranged from their parents, they have the right to receive support. We intend to continue that. We intend to create appropriate exceptions under the power in clause 4(2), but to set the lower age limit at 16 would send a signal that young people should be financially independent of their parents at that point.

**Jenny Willott:** Will the Minister clarify whether the Government intend to set the benefit level for those aged 16 or 17 at a different amount from that for those aged 18 and over? In the benefits system set up by the

previous Government there are currently different amounts allocated by age, which many people feel is unfair, given that the cost of living is the same no matter how old people are. Will the Minister confirm what the Government's intentions are?

**Chris Grayling:** We have no immediate plans to make changes. There are many things we might like to do, but the financial circumstances that we face mean that we cannot.

The support that we provide to young people of this age group should very much be the exception rather than the rule. We should focus on getting those young people into education or training. My Department and the Department for Education are working closely on that, and we are acutely aware that young people are slipping through the net and ending up on benefits at 16 or 17. We really want to address that problem, because if we do not support them in the right way they will undoubtedly end up not in education, employment or training after the age of 18. However, we have no immediate plans to change the benefit rates that apply to that particular group.

What we propose is the right way to do things, but it is a point of nuance. The Opposition say that the age should be 16 unless we make exceptions; we say that it should be 18 unless we make exceptions. We both agree on the need to support young people who find themselves in the circumstances that I have described, but the Government are not minded to make a change. I urge the right hon. Gentleman to withdraw the amendment. I hope that I have given sufficient reassurance that the commitment that he has shown to these young people in the past will certainly continue.

**Stephen Timms:** I am grateful for those reassurances, and the assurances provided in the note on regulations that the Minister sent us last night. He has made it clear that it is the Government's intention to support some 16 and 17-year-olds with universal credit. I would have preferred it to have been included in the Bill. However, the real concern is that the support should be provided. It is not my intention to press the amendment to a vote. I beg to ask leave to withdraw the amendment.

*Amendment, by leave, withdrawn.*

**Stephen Timms:** I beg to move amendment 6, in clause 4, page 2, line 37, at end insert—

'(c) specify circumstances in which certain groups, which shall include parents, young people and disabled students, are treated as not receiving education.'

The amendment deals with the entitlement of students to receive universal credit. Most students will rely on income from student support arrangements, from their families or from work, but it is important that the Government should not remove entitlement to universal credit from students who currently receive support from one element of another of the benefit. I have not been able fully to study the note that the Minister sent us last night about which students will be entitled to receive universal credit, and I look forward to his comments on that.

The rules are clearly different for different benefits. I particularly hope that the Minister will accept that universal credit should be available to students who are

[Stephen Timms]

parents, whether lone parents or otherwise, and including single foster parents; students with disabilities; students who are vulnerable and therefore regarded as qualifying young persons because they are young parents, who live away from their own parents because of difficult circumstances or who were previously in local authority care; students who are refugees in the UK studying English; and students from abroad whose funds have been disrupted. I understand that all those students are able to obtain support under the existing system, and I should be grateful for confirmation from the Minister that is the Government's intention that each of those categories will be able to receive universal credit under the new system.

I have another question for the Minister. I understand that only those disabled students entitled to disability living allowance can claim income-related employment and support allowance but that other disabled students who do not qualify for disability living allowance can get help from housing benefit. Can the Minister confirm that that wider group will be able to get help under universal credit?

Again, this is an example of something that we will come across frequently in the Bill. Different rules apply to different benefits, but there will be one benefit in the future. A question arises about which of the numerous pre-merger rules will apply in the post-merger situation. There is a particularly important question here about the position of disabled students under the new arrangements.

12 noon

**Chris Grayling:** The shadow Minister has raised an important issue and provided an opportunity for the Government to offer reassurance. He says, rightly, that there is a long-standing principle that, in general, the benefit system should not be a source of financial support for those in the education system, but that there are some for whom exceptions are made. Young people are primarily the responsibility of their parents until they leave school. For students in higher education, there is a comprehensive system of student loans and grants. In most cases, there is no reason to pay benefits to those in education.

However, there have always been exceptions to the general rule. Currently, there are a number of situations where benefits including income support, employment and support allowance, and housing benefit can be awarded to young people in non-advanced education and to students. Students can also receive the child tax credit.

Our intention under the universal credit is not to redraw any boundaries. We do not want to widen the extent to which those in the education system get support for benefits, nor do we want to remove support from groups of young people and students who get support under the current system, where that continues to be appropriate. For that reason, the Bill as drafted provides a general exclusion for education, along with regulation-making powers to define the precise scope of the exclusion and to create exemptions.

As the right hon. Gentleman just said, anyone who has looked at the current regulations will know that the rules on education are hideously complex, and that the

details change frequently to keep up with changes in the education system. We will certainly try to simplify and update the approach in drafting regulations, but subject to that, I expect the regulations to define the circumstances for someone who is or is not receiving education in much the same way as happens now. We will provide exemptions for young people who live independently from their parents, for students who are themselves parents and for disabled students. We will continue to have regard to the income that is available to students through loans and grants so that there is no duplication of support. On the specific point raised by the right hon. Gentleman, we certainly intend to make the same provision as now for refugees studying English and for those from abroad.

On the face of it, the definition of disability is broader than simply the ESA provision, but in practice both definitions focus on longer-term disabilities, and our intention for both benefits is to exclude short-term sickness. The aim is to have an aligned rule in the universal credit, which will have to be designed, but which basically replicates the situation that we have at present. The aim is to regulate for no change in all of this, and the right hon. Gentleman will see that in a number of cases as we go through the Bill. I will be happy to clarify the situation at those stages.

Because of one of the things that I thought was slightly worrying about the evidence sessions, I want to give out a message from this Committee—this is a prime case in point—that we are not intending to remove some of the basic entitlements from people in the system.

**Stephen Timms:** I am grateful to the Minister, who has given us some reassurance. May I press him on that last point? Is he confirming, then, that disabled students will not necessarily have to be entitled to disability living allowance in order to obtain universal credit?

**Chris Grayling:** We will seek within the universal credit to replicate, as effectively as we can, what exists at present. I am not saying that anyone's basic entitlement will change; we will seek to regulate a replica of the existing system in the universal credit system that follows it.

**Stephen Timms:** I am grateful for that. I appreciate that this may be a matter that has not yet been decided, but as I understand it, it is not necessary at present to be entitled to DLA in order to claim income-related employment and support allowance or claim housing benefit, and I am anxious that the Minister has not at this stage excluded those who are not entitled to DLA from receipt of universal credit. Can he give us that reassurance?

**Chris Grayling:** We have not made final decisions on the detail. The hon. Gentleman has made an important point, which I will happily reflect in our discussions. However, I simply emphasise that we intend to replicate the status quo. The issue around DLA will be materially impacted on by the current review, which will lead to the creation of the personal independence payment. We will debate that new payment later in our consideration of the Bill.

With regard to students, it is not our intention to change the level or nature of entitlement, and in the Bill we will seek to create a comparable structure to what we have now.

**Stephen Timms:** I am grateful to the Minister for those reassurances. I accept that there is still work to be done. The particular point that I pressed him on will be of interest to quite a large number of people. I beg to ask leave to withdraw the amendment.

*Amendment, by leave, withdrawn.*

*Question proposed,* That the clause stand part of the Bill.

**Chris Grayling:** I will not trouble the Committee for long, but I will touch on one or two other aspects of the clause, which establishes the basic conditions that people must meet to receive universal credit. They include conditions relating to age, being in Great Britain, education, and the need for people to accept their claimant commitment, which sets out their responsibilities in relation to their award. We will discuss the claimant commitment at greater length over the course of debates on the Bill. We see it as an important part of the universal credit and the structure that we are creating.

As universal credit replaces a range of existing benefits with different rules, we must set out a clear framework for entitlement that must be simple enough for advisers in Jobcentre Plus to explain to the public. The principle that only working-age people should be supported by working-age benefits will continue under universal credit. Clause 4 limits eligibility to people between the age of 18 and state pension credit age to avoid duplicating support that is available elsewhere, such as in provisions for students that support the state pension system. We have just discussed the issue of 16 to 17-year-olds.

We will also focus our working-age benefit regime on those seeking work in Great Britain. However, we intend to create very limited conditions under which an individual might receive universal credit while temporarily outside the United Kingdom. Clearly, that is an issue that has to be handled with care and sensitivity. Universal credit will not replace existing support for people in education, such as student loans. That is why it excludes people who are receiving education. However, it is our intention to maintain and continue the support that is provided on an exceptional basis to people in education through the benefit system.

Clause 4 also includes the requirement that each universal credit claimant has to accept a claimant commitment. As part 2 of the Bill sets out, the claimant commitment will be introduced in existing out-of-work benefits before the introduction of universal credit. We think that the commitment is essential to ensure that advisers can make appropriate work-related demands on claimants to guide them into work. It will also include the duty on claimants to report changes in their circumstances. The claimant commitment is very important to maintain the focus on work and to limit error in the new system. With the introduction of the Work programme and a number of other measures designed to help shorter-term jobseekers, the claimant commitment is an extremely important part of creating the foundation for the process of job search, with Jobcentre Plus proactively looking for more opportunities to help people in the

early days of job search, and then the Work programme providing a greater intensity of support to those who have struggled to get into employment and who are out of work after a longer period of time.

**Kate Green:** I am still a new girl in this process, so I need your guidance and prompting, Mr Gray, on whether I can join in at all. Will the Minister say a little more in relation to the claimant commitment in clause 4? As he has explained, the claimant commitment is a basic condition for entitlement and I understood from the way in which he was describing it that it could be tailored to the individual, which might imply some period of discussion before that commitment is finalised. In particular, an interview will obviously need to take place with the claimant. That creates some potential for delay in the benefit entitlement being determined and payment actually being put into place. I would be grateful if the Minister clarified how any delay could be mitigated. In particular, is there an opportunity to clarify in guidance that, provided the claimant is engaging with the process, any administrative delay in completing the claimant commitment will not hold up entitlement and payment?

**Chris Grayling:** I give the hon. Lady that reassurance. As she will know, any new claimant will need to sit down with a Jobcentre Plus adviser and go through their plans for the job search. Our intention is that the claimant commitment is effectively a binding agreement to take part in job search activities. That should not be limited to a willingness to apply for a couple of jobs a week, or whatever the job search agreement may be. We are looking to encourage more people to do work experience and training, and she will know that we are seeking to strengthen the rules on training participation for the unemployed. That is the contractual basis between the state and the claimant that says that the claimant will actually do such things to try and get into work.

**Sheila Gilmore:** If this is a contract, will duties be placed on the jobcentre to provide certain types of training and other activities? Contracts are usually two-way.

**Chris Grayling:** Jobcentre Plus already provides support for individuals. We are not seeking to prescribe from the centre what support should be provided for each individual. Indeed, we want the opposite. We are introducing greater flexibilities into Jobcentre Plus, so that advisers have more discretion about the nature of the support, guidance and advice that they provide for individuals. However, it has always been, and always will be, a core principle that, in return for the receipt of benefit payments, somebody who is looking for work has to do right thing and take part in the various activities to pursue work that have been agreed with Jobcentre Plus. The claimant commitment simply provides the basis for that.

I can absolutely assure the hon. Member for Stretford and Urmston that we do not envisage the formulation of the claimant commitment being a long process. I want it to be simple, clean, and straightforward, and I want it to happen in the first interview. I certainly do not want people to be disadvantaged by administrative issues around the issuing of the claimant commitment. That is not our intention. It is simply putting in place the underpinning for the requirement that, effectively,

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the state will provide support to people while they are out of work. The state's part is crucial in this two-way process.

The hon. Member for Edinburgh East asked what the role of the state is. Its job is to provide money to support people while they are out of work. We expect that the claimant will roll their sleeves up and do everything that they can to get back into work. The claimant commitment provides the underpinning for that, but it is certainly not our intention that there should be any administrative issues around finalising it or that individuals should be disadvantaged as a result.

*Question put and agreed to.*

*Clause 4 accordingly ordered to stand part of the Bill.*

### Clause 5

#### FINANCIAL CONDITIONS

**Stephen Timms:** I beg to move amendment 7, in clause 5, page 3, line 4, after 'it', insert—

"excluding amounts in an Individual Savings Account or other prescribed saving account where the claimant is in work".

**The Chair:** With this it will be convenient to discuss amendment 8, in clause 5, page 3, line 10, after 'it', insert

"excluding amounts in an Individual Savings Account or other prescribed saving account where one of the claimants is in work".

**Stephen Timms:** We come to one of the most surprising and dismaying parts of the Bill. It has always been the case for means-tested, out-of-work benefits that there has been a savings cap. The previous Government substantially raised the level of that cap—most recently in 2006. The note on the DWP website about universal credit policy treatment of capital reminds us that the previous Government doubled the cap and the lower limit for savings income counting in the calculation of benefits from £3,000 and £8,000 to £6,000 and £16,000.

We have an arrangement at the moment where savings do not affect entitlement to means-tested benefits if they are less than £6,000. There is then an imputed income from £6,000 of savings upwards, and means-tested benefits are withdrawn altogether if somebody has savings of £16,000. Those rules do not apply in that way to tax credits. In particular, there is no savings cap on tax credits, although there is a much more modest arrangement for savings income being counted in the assessment of income for tax credits purposes.

**Charlie Elphicke:** For my education, will the right hon. Gentleman tell me how long the £16,000 limit has been in place and when it was last changed?

12.15 pm

**Stephen Timms:** As I was saying a moment ago, it was doubled by the previous Government in 2006. In the Bill, the Government have chosen to impose a savings cap on universal credit, including for people in work. If that provision is not changed, in the future a large number of people will find it not only difficult but

impossible to save. That runs contrary to everything that the Conservatives told us they believed about saving before the election; it is a ferocious and extraordinary attack on saving. Suppose that after a long period out of work, a person manages to get a job on a fairly modest income and would like to start saving, perhaps for the opportunity to buy a home in future. The Bill says they should forget it. If they are entitled to universal credit but manage to save over £16,000 from their earnings—no one will argue that one can think about buying a home with less than £16,000 for a deposit—they could lose thousands of pounds a year in tax credits.

**Harriett Baldwin:** Will the right hon. Gentleman confirm that that exact characteristic exists in the benefit system today? If someone has over a certain amount in savings, they receive only the contributory jobseeker's allowance.

**Stephen Timms:** That is right. The savings cap has long applied to out-of-work benefits, but applying it to in-work benefits is new. That is not a feature of the tax credit system. This is a big change, and the Committee needs to weigh up whether it is the right thing to do, and whether the ferocious penalties for saving ought to apply to people who are doing the right thing, getting back into work and thinking about building up some savings. Suppose someone decides they want to start saving to support a child through future higher education and meet the much higher costs imposed by the Government. For many people, clause 5 will make that kind of saving impossible.

**Ian Swales:** I understand the right hon. Gentleman's point. He is effectively saying that channelling taxpayers' money into individuals' savings accounts may be a way to pay the costs of higher education which, in many cases, the person being educated will have to pay back under the new repayment system. Is that a good use of taxpayers' money?

**Stephen Timms:** The hon. Gentleman makes an interesting point. I think it is the other way round. We are saying that the Government want to plunder the savings of people on low incomes. If they have any savings—certainly if they have £16,000 but also if they have £6,000—they will receive less support than someone who is not in that position. That will effectively reduce their savings, and they will find maintaining that level of savings impossible.

**Charlie Elphicke:** Is the right hon. Gentleman arguing that there should be no savings cap at all and that we should not have a limit of £16,000, or any limit whatsoever? Is that the case that he is making?

**Stephen Timms:** The case I am making is in the amendment under discussion. If people in work are making a serious effort to save, for example in an individual savings account, there should not be a cap of the kind imposed by the Bill. It is a catastrophic arrangement for savings, and I will say a little more about that.

Another example occurred to me. What happens if someone who is in work and receiving universal credit inherits a sum of money from a parent? Before the election, the Conservative party made a lot of not wanting to tax inheritance—I remember that debate

vividly. Under clause 5, however, the Government will take thousands of pounds away from people on modest earnings as a punishment for receiving a modest inheritance. Before the general election we heard a great deal about compassionate conservatism. That was going to be the new face of the Conservative party. Indeed, the Secretary of State set up a think tank, the Centre for Social Justice, to work out what compassionate conservatism would mean in practice. The “Dynamic Benefits” report spelled out in some detail both the ideas, which are now in the Bill, and the problems caused by the existing savings cap. It said that

“the savings penalty hurts those who have been prudent, and creates a disincentive to save.”

That is the voice of compassionate conservatism.

**Charlie Elphicke:** The right hon. Gentleman is generous in giving way. I just want to understand the numbers. I believe that about £6,000 or £7,000 can be put into an ISA each year in cash so in year 1, in effect the capital cut-off—*[Interruption.]* I am told it is £10,000. So the cut-off is about £26,000. The right hon. Gentleman is making the case to increase the capital limit to £26,000 by stealth. Can he tell us how much this whole proposal might cost?

**Stephen Timms:** The hon. Gentleman asks an interesting question about the possible cost which I will come to in a moment. I suggest that if the savings are in an ISA there should be no impact on the level of universal credit that is received. Those savings should be fully protected. The “Dynamic Benefits” report quotes the Secretary of State, who presumably is an influential figure in the design of the Bill. He says:

“Poverty is not just about how little you earn; it’s also about how little you own.”

He is absolutely right, yet here we have a measure designed specifically to reduce the amount that people own. The previous Government did a great deal to make it easier for people to save and build up assets. This measure demolishes that.

**Harriett Baldwin:** Will the right hon. Gentleman clarify his point about the position for someone inheriting a large sum of money? Does he contend that they should remain on the universal credit if they inherit £50,000?

**Stephen Timms:** What I am suggesting is that if savings are in an ISA they should be protected from the taper that will apply under these provisions. I have suggested that other prescribed savings accounts might be included as well.

**Guto Bebb (Aberconwy) (Con):** I have sympathy with the points being made about the need to encourage savings but is the implication that someone with a significant amount, such as £500,000 saved in ISAs over a period of years, should be entitled to the full benefit of the universal credit, whereas those who aspire to work harder for themselves will be penalised?

**Stephen Timms:** I do not think there are many people with £500,000 in ISAs, but I draw the hon. Gentleman’s attention to the way in which the arrangements work at the moment in the tax credit system where there is no cap of this kind in place at all. There is a much more generous imputation arrangement, so people are regarded

as having some income, but there is a big disregard in savings before there is any effect at all on the tax credits that people receive as a result of savings. I am sure that he will agree with the point which is made in the “Dynamic Benefits” report that this is “an unfair penalty to those who have saved”.

Instead of easing the penalty, as the Centre for Social Justice advocates, the Government are extending it to people in work on modest incomes. The Centre for Social Justice, set up by the Secretary of State for Work and Pensions, spelt out a compassionate, conservative approach, yet clause 5 does precisely the opposite. It is the antithesis of compassionate conservatism. The thinking at the root of this—if someone has any savings then they ought not to get any support—is the kind of thinking that inspired the Poor Law in the past. The view that someone should get nothing from the state unless they are absolutely on their uppers is not compassionate conservatism.

It is workhouse conservatism which is reflected in clause 5. It portrays a dreadful view of what welfare is for. The view is that welfare is not a foundation on which to build, which is how we should see the system, but is instead a punishment to grind someone down.

**Charlie Elphicke** *rose—*

**George Hollingbery:** *rose—*

**Stephen Timms:** I will give way to the hon. Member for Dover, and I will happily give way to his hon. Friend, too.

**Charlie Elphicke:** I thank the right hon. Gentleman once again for being so generous and allowing interventions. He misunderstands compassionate conservatism, which is about giving help to those who are in need and helping them up rather than just handing out money. A compassionate Conservative would strongly disagree with the proposition that benefits should be paid out to people with, say, more than £100,000 in the bank. I must press the right hon. Gentleman once again—how much will his proposal cost?

**Stephen Timms:** I will come directly to the question of cost. What I am concerned about are people who have £16,000 in the bank, who, under this proposal, will lose all the credit that they otherwise would receive. The hon. Gentleman says that I misunderstand compassionate conservatism, which is about helping people. Surely it should be about helping people to save, not punishing people for saving and fining them huge amounts of money. I will come to how huge they might be in a moment, but surely we should not have a system that fines people very large amounts because they have had the temerity to save.

We had an interesting exchange earlier, prompted by a point made by my hon. Friend the Member for Stretford and Urmston about stigma. She was absolutely right to make the point that there is no stigma attached to the receipt of tax credits. This will certainly create a stigma around the receipt of universal credit and it should not be like that. The proposal is dreadful.

**George Hollingbery:** I think it is fair to say that the benefit system has already conceded the principle on this issue and that if someone is on JSA and out-of-work

[George Hollingbery]

benefits they are not allowed to have savings. We need to look carefully at what the right hon. Gentleman has brought up. He has talked about tuition fees, buying a house and making deposits, and assisting others to go to university, but the Government are already helping in those areas. Government money is allocated to help with tuition fees, and during the Budget there was talk of enough money being provided for 20,000 people to buy a house. Is it not right that in these difficult financial times the Government have to sit back and examine their priorities, see where help is already provided and reallocate as necessary?

**Stephen Timms:** The hon. Gentleman may take the view that plundering people's savings is the kind of thing that the Government must do in these difficult circumstances, but I do not agree with that. I think savings should be protected. If he thinks that some people's savings should be plundered, he should look elsewhere than the savings of those who are on the lowest incomes. Surely those savings above all should be protected.

**George Hollingbery:** I did not say that the Government should be plundering anybody's savings. The Government are not taking money from people; they are not providing money in lieu. There is a distinct and very real difference. It is about asset allocation in difficult times.

**Stephen Timms:** This is about plundering people's savings, as I will explain in a moment. The hon. Gentleman makes the point that the Government are helping people to buy their homes. I was interested to read the Universal Credit Policy Briefing Note 3, "Treatment of Capital", on the DWP website. In paragraph 3, it is a bit defensive about the fact that people will not be able to save up for the deposit for a mortgage. It ends up by stating:

"The prospects for Universal Credit claimants seeking a mortgage will also be influenced by wider circumstances such as their expected income and the amount they want to borrow. For most Universal Credit claimants, following changes in lending policies subsequent to the problems caused by sub-prime practices, their income levels would not support a mortgage application."

That is all right then; they cannot afford a mortgage. They should not be encouraged to save; it does not matter if they cannot build up any savings; they are never going to get the mortgage anyway. Where is the aspiration?

12.30 pm

Surely this is supposed to be about people getting a job, perhaps even a mini-job initially, and aiming for a better future for themselves and their families. Yet, clause 5 introduces a punitive arrangement for the savings of anyone in that position. It is a dreadful proposal.

**Jenny Willott:** I understand the right hon. Gentleman's logic. However, the number of people affected by this is very small. Most people who are going to receive universal credit could not possibly dream of building savings of £16,000. The proportion of people affected is very small, as we have seen in the back-up documents. Clearly, it will affect some people, but for the vast majority,

including those on the lowest incomes, the idea of saving such a large amount of money is completely unrealistic.

**Stephen Timms:** Surely, once people have got into a job, we should encourage them to save. We should not be saying to them, "You've got no chance. You're never going to be able to save the deposit for a mortgage. It doesn't therefore matter if you don't save." Surely, all of us would agree that people should be encouraged. Once they are in work and earning regularly and in a position to do so, we should be encouraging them to save, not punishing them.

**Jenny Willott:** I would agree with the right hon. Gentleman, if what was proposed was that nobody was allowed to have any savings at all. That is not what is proposed. There is to be a cap of £16,000, which means that people will be able to save up to that amount, without losing their universal credit. For most people who are on that level of income and saving, that is a very distant prospect. They are being encouraged to save by having a cap set at what is for a lot of people quite a high level. It would only be the case if one was allowed no level of saving.

**Stephen Timms:** The hon. Lady is mistaken. Someone would start to lose universal credit if they had £6,000 in savings, not £16,000. One would lose everything at £16,000, which, as I will say in a moment, could amount to a very large amount of money indeed. She says that not many people would be affected. The Secretary of State told us on Second Reading that 100,000 would be. He rather made her point: it does not matter, it is only 100,000 people. Some 100,000 households strikes me as a large number to be facing huge fines because they have saved.

Let me go a little further with my argument to set out the scale of what we are talking about. I want to point out that this is not in regulations or can be readily changed, though the sums involved can be. It is clearly spelled out in clause 5 that someone will not get universal credit if they have more than a prescribed capital sum—at the moment £16,000. That is clearly a permanent feature of the system that the Government do not intend to vary. There is no way that a lasting settlement on welfare will look like this. This is a punitive arrangement. Another Government will have to come along—pretty soon, I hope—to replace it with a measure that is supportive of aspiration, instead of destructive of it, as clause 5 most certainly is.

**George Hollingbery:** Coming back to universal credit policy briefing note 3, about which he spoke earlier. It suggests to me that a large number of those who are to receive universal credit are to do so temporarily. The ones who are going to be cut off by the £16,000 limit will have fallen out of well-paid work and have good prospects of moving back into better work. The documents says,

"Of those with savings over £16,000 receiving tax credits, 52% earn over £40,000 per annum and 30% earn over £50,000."

This is a group that is already receiving money—to my mind somewhat extraordinarily. Does the right hon. Gentleman not think that that is relevant?

**Stephen Timms:** I refer him to what the Minister has said about people who move into 10-hour-a-week jobs, who perhaps have a disability but who are able to overcome the hurdles that have faced them and move into a job. Surely we should have a system that encourages such people to save and to plan for the future, and to have some aspiration. By contrast, this proposal is destructive of aspiration.

**George Hollingbery:** With due respect, the right hon. Gentleman has not quite answered my point. Is it not most likely that those people who have a level of savings that will disqualify them will be those who are better qualified, who have earned more and who are much more likely to make it back into work?

**Stephen Timms:** Some might be, but others will not. Surely the whole point of what we are doing here is to provide a pathway for people who are currently out of work to get back into work, and to plan for a decent future for themselves and their families. Clause 5 robs such people of that possibility, and it most certainly should be changed.

**Charlie Elphicke:** I have been listening carefully to the case that the right hon. Gentleman has made. He says that 100,000 people would be affected. According to my rough calculations, if each of those 100,000 were losing £5,000 of universal credit, that would amount to £500 million a year. Does he agree with those figures, or will he come up with his own figures? How is he going to pay for it?

**Stephen Timms:** The hon. Gentleman is eager to find out the figures, and I will come on to address that very point in a few moments. If he can be patient for a little longer, I am looking forward to that part of my speech as well.

Our proposal is a modest one. If a person is in work and is making a serious, committed effort to save—for example in an ISA, or in some other prescribed savings account—they should not be penalised in universal credit in the way in which clause 5 envisages.

**Yvonne Fovargue (Makerfield) (Lab):** The hon. Member for Meon Valley has talked about people who go in and out of work for short periods, and who may be out of work for a short period. Is it not true that they are already using the savings that they have built up to pay the mortgage interest during this period? To penalise them in universal credit is a double whammy.

**Stephen Timms:** My hon. Friend is absolutely right, and she speaks from long experience of running a citizens advice bureau. There is clearly already a big call on people's savings, and the proposal will make the matter many times worse. I am genuinely mystified about why the Government are going down this road. Of course, individual savings accounts were introduced by the previous Government, but the previous Conservative Government had signed up to personal equity plans. The principle is the same, namely that a person's savings should be protected from tax if they are committed beyond a minimum period to saving in such a way.

Amendments 7 and 8 simply propose that savings in such plans should be protected from punitive withdrawals of universal credit. We all accept that it is right for ISAs to be protected from tax, but we are simply saying that they should also be protected from unfair withdrawal of universal credit. The same principle should apply to people who are on very low incomes as already applies to people who are on higher incomes.

**Ian Swales:** Will the right hon. Gentleman clarify one point? As I read the amendments, he is proposing that we do not rob the savings—to use his expression—of people who are in work, but we are quite happy to rob those of people who are out of work. Is that the effect of his amendments?

**Stephen Timms:** This is a very modest proposal, and the hon. Gentleman is absolutely right. I am simply saying that once a person is in work, as is currently the case in the tax credits system, the incentive should be there for them to save. We certainly should not be taking thousands of pounds away from people because they have had the temerity to build up some modest savings. I see the amendments as simply extending the existing safeguards from tax for saving from the withdrawal of universal credit. What do the Government proposals mean in practice? The hon. Member for Dover pressed me on that, and I am pleased to be able to attempt an answer to his question, because there is some confusion, and I hope that the Minister will clarify in a moment.

The Social Market Foundation estimated that 400,000—not 100,000—households would lose all of their universal credit under the provisions. Ian Mulheirn, the director of the SMF, said:

“The Universal Credit will punish working families trying to save for the future, such as those trying get a foot on the property ladder”—

the kind of concern one would have expected of Government Members.

While I am quoting other people's views, the Institute for Fiscal Studies said in its 11 January comment on universal credit:

“One clear group of losers will be families with children having savings of over £16,000: they can currently receive tax credits but will not be eligible for any Universal Credit. This may well focus spending on those who need it most, but also gives families an extremely strong incentive to keep financial assets below this level.”

Those are measured terms, but the import of what is being done is very clear.

The Secretary of State says that we should not worry too much because it is actually only 100,000 households. It is not entirely clear to me how the difference between 400,000 and 100,000 is accounted for. It has been suggested—this might well be right—that the explanation is that universal credit will be available to far fewer people than tax credits are, because it will not extend as far up the income scale. Nevertheless, it is not clear to me whether that accounts for the full discrepancy. If the Minister can shed some light on that, I would be grateful.

**Ian Swales:** I do not know if the right hon. Gentleman's figures are about people who are entitled to tax credit or whether they are about those who claim tax credit. We all know that the system is so complicated that not everyone claims. The latest figures on the HMRC website are that only 58% of people who may claim tax credit

[*Ian Swales*]

do so and, of those with no children, only 23%—less than a quarter of those who could claim tax credit. In his comparisons, it would be good to know which figures he is comparing.

**Stephen Timms:** For low-income families with children, tax credit take-up is high—well over 90% for those families, who are in particular the people in the circumstances we are discussing with the amendment.

I asked the Minister in a written question—[*Interruption.*] I am happy to give way, although I think I am about to answer the question.

**Charlie Elphicke:** I am always slightly suspicious about Government figures. Taking the Social Market Foundation numbers, the right hon. Gentleman said that they were 400,000. According to the House of Commons Library paper, it is 600,000. Which figure does he prefer?

**Stephen Timms:** The difference in that case is between those who lose everything, because they have saved more than £16,000, giving us the 400,000 figure, and those who lose something, because they have saved between £6,000 and £16,000, as well as more than £16,000, giving us a figure a good deal larger. As the hon. Gentleman rightly says, the House of Commons Library estimates that to be 600,000—not far from what the SMF says. The figure is certainly larger if we add to those who lose everything those who lose something.

In a written question, I asked the Secretary of State for Work and Pensions to estimate the cost to the Exchequer of exempting from the £16,000 savings limit for universal credit people who are in work. On 28 February, the answer was that the estimated annual cost would be about £70 million a year.

“The estimated annual cost to the Exchequer of exempting from the £16,000 savings limit for Universal Credit for people who...are in work is around £70 million”.—[*Official Report*, 28 February 2011; Vol. 524, c. 210W.]

That is the answer to the question that the hon. Member for Dover has been pressing me for.

**Charlie Elphicke:** With respect, the right hon. Gentleman quoted the Social Market Foundation. As he knows, I am slightly suspicious of the Government's figures, when they just come out with £70 million. The foundation says that it is £50 a week, and about 400,000 people. That seems to be rather more than £70 million at about £1 billion.

12.45 pm

**Stephen Timms:** I share the hon. Gentleman's scepticism about some of the figures that his colleagues in Government are providing. Indeed, my hon. Friend the Member for Glasgow North East (Mr Bain) tabled a question rather later than mine, to which the Minister replied:

“It is estimated using the Department's Policy Simulation Model that in steady state:

- (i) 100,000 families with savings above £16,000 would have a lower entitlement under universal credit than they would have had under the current system. It is estimated that the average effect on annual entitlement in this group will be a decrease of £2,720”.—[*Official Report*, 22 March 2011; Vol. 525, c. 970W.]

I suspect that the hon. Gentleman feels that 100,000 families losing £2,720 does not sound right, when £70 million was the figure that the same Minister gave in reply to my question on 28 February. If the Minister can shed some light on what the correct figure is, that would be helpful, and may even reassure his hon. Friend about the quality of Government figures.

The Minister also answered a question from me about the cost of increasing the savings limit for those in receipt of universal credit up to £20,000. His answer on 28 February was that that would cost £30 million, which again does not seem to fit readily with the figure in briefing note 3, which says that increasing the savings limit to £25,000 would, if I remember rightly, cost £105 million. There seems to be some confusion about the costs, and the Government must get a grip and clarify them, because the consequences are great indeed.

The Minister's answer to my hon. Friend suggested that the average loss will be £2,720, so we must pause for a moment to consider that if someone has the temerity to have £16,000 in the bank, it will cost £2,720 a year on average. That is the penalty that is being imposed on people with savings.

**Paul Uppal:** The right hon. Gentleman uses emotive words such as “plundering” and “punitive”. As someone from a fairly modest background and a family that saved, I can tell him candidly that the motive for saving is a habit of living within one's means and to aspire. That is something that the previous Government could have done with in their own financial budget.

**Stephen Timms:** The hon. Gentleman is absolutely right to draw attention to the circumstances in which many people around the country find themselves. He will be able to confirm from his experience that if the price of having £16,000 in savings is to lose almost £3,000 a year—that is the average figure, not the greatest, according to the Minister's answer—people will ensure that they manage their affairs in such a way that they reduce those savings. We are talking about 100,000 people who will find it impossible to build up any savings, and a larger number will be affected because they have between £6,000 and £16,000.

**Charlie Elphicke:** The right hon. Gentleman has been extraordinarily generous and kind to me. If 100,000 people lose £2,700, that amounts to £270 million. Do his figures take account of behaviour change? If I had £16,000 in the bank, I would shove £10,000 into an ISA and then be below the £6,000 threshold, so I would not lose anything. There will be that behaviour change at the margin, so the figure could be more towards £500 million. Does the right hon. Gentleman agree?

**Stephen Timms:** There certainly is confusion about how much that would cost, because the Minister told me that that was £70 million and his other answer implied that that would be £270 million, so who knows.

**Chris Grayling:** May I correct the right hon. Gentleman? The figure of £70 million is for people in work. The other figures are for overall changes to the system for those out of work and those in work. We take the view that it is better to have the same system, rather than separate rules for each.

**Stephen Timms:** I am grateful to the right hon. Gentleman for that explanation, but let me just refer him to the answer he gave to my hon. Friend the Member for Glasgow North East (Mr Bain), who asked him:

“if he will estimate the (a) number of families with savings...above £16,000”—

and between £6,000 and £16,000, but let us stick with above £16,000—

“who will be affected by the introduction of universal credit and...the likely effect on average annual incomes in each group of the implementation of universal credit.”—[*Official Report*, 22 March 2011; Vol. 525, c. 970W.]

In other words, my hon. Friend was asking the Minister what change there would be in the treatment of savings as a result of the introduction of universal credit. For people who are out of work, as he is pointing out, there will be no change, so the change that that answer refers to can only be, as far as I can see, for people who are in work. They will be the only people who have an additional disincentive to save and a new penalty for saving. Those who are out of work already suffer the penalty that we are describing. The Minister’s answer to my hon. Friend states:

“100,000 families...would have a lower entitlement under universal credit than they would have...under the current system.”

That can only, surely, be people who are in work.

**Chris Grayling:** Does the right hon. Gentleman recognise that the figure of £70 million is simply the cost for people in work? The figures of £30 million and £105 million refer to the cost of increasing the threshold from £16,000 to £20,000 for everyone, including those in and out of work, and the cost of increasing the figure to £25,000 for everyone, including those who are in and out of work.

**Stephen Timms:** That certainly helps to clarify what is on universal credit policy briefing note number three, but it certainly does not clarify the answer that the right hon. Gentleman gave to my hon. Friend the Member for Glasgow North East, when he stated:

“100,000 families...would have a lower entitlement under universal credit than they would have had under the current system. It is estimated that the average effect on annual entitlement in this group will be a decrease of £2,720”.—[*Official Report*, 22 March 2011; Vol. 525, c. 970W.]

As the hon. Member for Dover astutely pointed out, £100,000 times £2,720 does not add up to £70 million, but perhaps there can be some reflection on that during the lunch break.

**Chris Grayling:** The right hon. Gentleman is, of course, forgetting that those people who currently hold those savings are subject to transitional protection.

**Stephen Timms:** I am not forgetting that at all. In fact, his answer explicitly refers to a steady state. We are talking about the long-term effects of that situation. He is, of course, right to draw attention to the fact that transitional protection, once we have seen the details of how that will work, may well safeguard individuals who currently are in that position, although I have some scepticism about how long such protection would in practice last, depending on the change of circumstance. My question is: do we want a system for the long term that has those sorts of draconian punishments for savings? I think the answer is absolutely clear that we do not.

**Guto Bebb:** To clarify, my understanding of the amendment is that the right hon. Gentleman is saying, in effect, that the people who have been able to save and gain benefit from the tax system as a result, should also gain benefit when they leave universal credit. In effect, it is not a case of a double-whammy, it is a case of having one’s cake and eating it.

**Stephen Timms:** What I am suggesting to the hon. Gentleman is that the protections for saving that are currently available to people paying income tax, including higher rate income tax, should also be available to people who are on low incomes and therefore receiving universal credit. That seems to me to be an entirely equitable proposition and I am surprised that the hon. Gentleman finds that difficult.

The Minister suggested, in his written answer to my hon. Friend the Member for Glasgow North East, that the average penalty for having more than £16,000 in savings will be £2,720. Of course, that, as far as I can see, does not take account of the costs of child care and the support for child care. The Government have not yet worked out how they will provide that, but if I understand the Secretary of State correctly, he has indicated to us that child care support will be within universal credit. Presumably, therefore, anyone with more than £16,000 in savings will get no child care support either. I might have misunderstood that. If I am wrong, I would be grateful for the Minister’s reassurance, as it increases the stakes further.

Committee members might have seen the useful briefing note from Family Action giving an example of how the scheme could work:

“For a Lone Parent with two one-year-old children, working 30 hours per week, earning £10,000, and with childcare costs of £200 per week, and savings of £20,000, their tax credit award would be around £318 per week (a little over £16,500 per year) enabling them to stay in work and avoid spending their savings. Under the Universal Credit, they would lose their entire Universal Credit award if they had over £16,000 of savings—they would receive only their earnings and their child benefit...leaving them only £2.98 per week after they have paid childcare costs.”

That is not a particularly implausible example. A lone parent with two one-year-old children working 30 hours a week and earning £10,000 with savings of £16,000 would lose £16,500 in a year as a punishment.

**Ian Swales:** I can understand the examples that the right hon. Gentleman quotes. The mathematics show that they would not lose that amount for long, as they would quickly go below the threshold to which he refers.

**Stephen Timms:** The hon. Gentleman is absolutely right. In no time at all, they would have zero savings, and then there would not be a problem. They would be able to get the full universal credit back. Is that the kind of system that the Committee wants? I think not. I have heard Conservative Members speak frequently enough in the past about savings to believe that they value them, but that is not reflected in clause 5. I hope that we can change the clause. If it is not changed before the Bill goes on to the statute books, it must certainly be changed very quickly thereafter.

I have made a rather lengthy speech, but I have barely spoken about the larger number of people with savings of between £6,000 and £16,000—we have touched on

[Stephen Timms]

the issue once or twice—who will lose some, although not all, of their universal credit, including some of their child care support. That is potentially a big sum of money. As others have pointed out, a significant number of people could be in that category.

This is a dreadful policy. It flies in the face of everything that Conservative Members have told us about their new approach, compassionate conservatism and even their belief in saving for people on modest incomes, which I thought was a priority of theirs. I urge the Committee to accept our amendment.

**Chris Grayling:** I have about 60 seconds to begin my remarks before we break for lunch. It will suffice at this stage for me to set out what we have just heard. Government Members will be interested to see how the Opposition

handle the amendment. They have just made a spending commitment in excess of £105 million in year one, bearing in mind that the ISA is cumulative, because the £10,000 increases and increases. It is a multi-hundred-million-pound spending commitment. We know that their party leader has said that no spending commitments should be made without reference to him or the shadow Chancellor, so I assume that if they press the amendment to a vote after the break, we will hear whether they have the endorsement of their party leadership in making a multi-hundred-million-pound spending commitment. I hope that before we conclude with the amendment, they will explain where the money will come from.

1 pm

*The Chairman adjourned the Committee without Question put (Standing Order No. 88).*

*Adjourned till this day at Four o'clock.*