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Public Bill Committee

WELFARE REFORM BILL

Sixth Sitting

Tuesday 29 March 2011

(Afternoon)

CONTENTS

CLAUSES 5 to 8 agreed to.

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The Committee consisted of the following Members:

Chairs: † MR JAMES GRAY, MR MIKE WEIR

† Baldwin, Harriett (*West Worcestershire*) (Con)
 † Bebb, Guto (*Aberconwy*) (Con)
 † Buck, Ms Karen (*Westminster North*) (Lab)
 † Curran, Margaret (*Glasgow East*) (Lab)
 † Elliott, Julie (*Sunderland Central*) (Lab)
 † Ellison, Jane (*Battersea*) (Con)
 † Elphicke, Charlie (*Dover*) (Con)
 † Fovargue, Yvonne (*Makerfield*) (Lab)
 † Gilmore, Sheila (*Edinburgh East*) (Lab)
 † Glen, John (*Salisbury*) (Con)
 † Grayling, Chris (*Minister of State, Department for Work and Pensions*)
 † Green, Kate (*Stretford and Urmston*) (Lab)
 † Greenwood, Lilian (*Nottingham South*) (Lab)
 † Hollingbery, George (*Meon Valley*) (Con)
 † McVey, Esther (*Wirral West*) (Con)

Miller, Maria (*Parliamentary Under-Secretary of State for Work and Pensions*)
 † Newton, Sarah (*Truro and Falmouth*) (Con)
 Paisley, Ian (*North Antrim*) (DUP)
 † Patel, Priti (*Witham*) (Con)
 † Pearce, Teresa (*Erith and Thamesmead*) (Lab)
 † Sarwar, Anas (*Glasgow Central*) (Lab)
 † Smith, Miss Chloe (*Norwich North*) (Con)
 † Swales, Ian (*Redcar*) (LD)
 † Timms, Stephen (*East Ham*) (Lab)
 † Uppal, Paul (*Wolverhampton South West*) (Con)
 † Willott, Jenny (*Cardiff Central*) (LD)

James Rhys, *Committee Clerk*

† **attended the Committee**

Public Bill Committee

Tuesday 29 March 2011

(Afternoon)

[MR JAMES GRAY in the Chair]

Welfare Reform Bill

Amendment proposed (this day): 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'.—(Stephen Timms.)

4 pm

The Minister of State, Department for Work and Pensions (Chris Grayling): We left at the moment I posed the question to the Opposition: where is the money coming from? I will not extend my remarks much beyond that, although I will of course happily respond at the end of the discussion to any issues raised by members of the Committee.

The Opposition are trying to amend subsection (1), which states:

"For the purposes of section 3, the financial conditions for a single claimant are that—

(a) the claimant's capital, or a prescribed part of it, is not greater than a prescribed amount".

Returning to the now celebrated bookcase, there is plenty of ability in the future for the Opposition, in the unlikely and unhappy event that they are successful in a future general election, to amend the regulations to achieve what they wanted to achieve this afternoon. The measure is purely enabling; it does not set in stone a £16,000 limit or an individual limit. It does not remove the flexibility that the right hon. Member for East Ham waxed so lyrical about all those years ago in Committee. What it does is simply create a vehicle to establish a limit, which is sensible. The hon. Gentleman gave a number of examples earlier, and on one or two occasions he was actually becoming the champion of the Department. He talked about inheritance. I do not know about him, but I happen to believe that if someone inherits many hundreds of thousands of pounds from a relative, they should not seek to continue to receive money from the state. That makes it far more logical to set in place a capital limit. Inevitably, the amount of that capital limit will be decided by Ministers and be based on financial circumstance and on what they think is the right mix.

The hon. Member for Redcar, who has just arrived in Committee, was absolutely right to point out this morning the discrepancy between the capital limits rules for those who are out of work and for those who are in work. Under the current system, those who are in work are able to preserve capital and those who are out of work are expected to spend it. We took a decision that we should strike a fair balance between those two groups. Beyond that, we have set out for the Committee where we intend the capital limit starting point to be. That decision has been made for a variety of reasons, but in particular because it is the most balanced and affordable option.

The right hon. Member for East Ham proposed to raise that limit by £10,000 per year cumulatively, because a person is entitled to put £10,000 a year into an individual savings account—so it is £10,000 for the first year, £20,000 for the second, £30,000 for the third, and so on. The cost of doing that would be in excess of £100 million a year cumulatively, because it increases year by year. My question to him and his colleagues is: where is the money coming from? The one piece missing from his remarks was how he would fund such a significant variation to our costly proposals. Perhaps he would like to explain that.

Stephen Timms (East Ham) (Lab): Of course. Perhaps it is worth making the point that tax credits currently do not have the cap that the Minister proposes. We are talking not about hundreds of thousands of pounds, but about £16,000. The Minister said that it would be easy in future to limit the applicability of the cap. Will he say a little more about how he envisages that working? Clause 4(2) states:

"Regulations may provide for exceptions to the requirement to meet any of the basic conditions".

There is no such possibility of exceptions to meet the financial conditions. How does he see the "prescribed part", under clause 5(1)(a), working?

Chris Grayling: Clause 5(1)(a) clearly allows the Government to set a capital limit and to decide what that could be—it could be 1p or £1 million. We happen to have formed the view that £16,000 is an appropriate level for it to be set at. If we remain in office, future regulations will set it at that level. There may be future scope to vary that if the economy is doing particularly well. We are now dealing with a rather large financial overhang, which means we have to find the best balance between what we would like to do and what is achievable.

Stephen Timms: The question is whether the savings of people on low incomes are the savings that should be plundered to plug the deficit. How does the Minister envisage the "prescribed part", under clause 5(1)(a), working? Will there be exceptions to what can be included in the capital limit and, if so, what will they be?

Chris Grayling: At the moment, we intend simply to set a £16,000 capital limit. Our view is that, where people are receiving money from the state in support, they are on relatively low incomes. The main focus of the universal credit structure is to lift people out of poverty. We think that £16,000 is an appropriate level at which to set a capital limit. I fully accept that that might be a point of difference between us. Some of the proposals of the right hon. Member for East Ham, for example a higher threshold or a provision that allows money to be put into individual savings accounts, would benefit people at the higher, rather than the lower, end of the scale. Likewise, in relation to mini-jobs, the people getting those first few hours of employment will not have £16,000 in the bank. Our priority is to help those people to get off benefits who have struggled for a long time, within the system, to get back into work.

Stephen Timms: If somebody receives a compensation payment of £15,000 or £20,000 as a result of an accident, will that count towards the capital limit?

Chris Grayling: We shall certainly be exploring some of the more specialised areas, especially for service people. Absolute decisions have not been taken, but it remains my view that if somebody has received a sum of compensation to tide them over a difficult period, that will inevitably have an impact on the amount of support they receive from the state. The state's job is to support people when they do not have other resources. The Government have been left with the biggest deficit in our peacetime history, so it is difficult to deliver all options for all people. We have to ask ourselves why we have that dilemma. The answer is sitting opposite us.

Priti Patel (Witham) (Con): Will my right hon. Friend confirm that the proposals will ensure that money goes to those who genuinely need it? Targeted resources will go to those people, as opposed to the disproportionate spread that we have seen thus far.

Chris Grayling: My hon. Friend is absolutely right. The focus of the universal credit is on lifting people out of poverty. We have to achieve the right balance between people further up the income scale and those further down the income scale. We think we have got it about right. If the Opposition do not agree, which they are absolutely at liberty to do, they can bring forward their own policies and approaches. The Committee would benefit from an explanation from them of how a multi-hundred-million-pound spending commitment would be funded. I notice that we have not yet been given information on that.

Julie Elliott (Sunderland Central) (Lab): I want to go back to the point the Minister mentioned a few moments ago regarding a payment for, for example, an industrial injury or accident—he mentioned service people. That money is usually awarded to pay for ongoing problems as a result of an injury above and beyond someone's daily normal living costs. If someone has a disability or some ongoing problem, that money is intended to pay for those extra things. It is not an award to cover basic living costs. What is the Minister's view on that?

Chris Grayling: For a typical claimant, personal injury payments are ignored for 52 weeks and are then ignored indefinitely if they are put into a trust fund, so there are some provisions on that. That takes me back to the original point I made this morning. The whole benefit of structuring the measure in such a way is that it offers future flexibility. If a new Government or a change of policy from an existing Government requires a change, or new circumstances arise that necessitate a change, that can be made quickly and easily without going through the extensive process of introducing primary legislation.

We are talking about amending a flexible piece of legislation that would allow the current or a future Government to adapt the rules according to circumstances to place a specific element within them. That just does not make sense. If the Opposition win a future election, they will have all the flexibility that they need to implement the policies that they are articulating. However, they have not explained to us where the money will come from to do so. Unless and until they explain where the funds will come from—I suspect that we will return to that issue numerous times during debate on the Bill—they

cannot expect the Government to take them seriously. I urge the Committee to reject the amendment, but I am happy to answer any specific further questions from Opposition Members. Perhaps they would like to explain where the money will come from.

Sheila Gilmore (Edinburgh East) (Lab): What we are seeing are fundamental differences of opinion about how to structure a welfare state and social security, and what kinds of contribution we want. Those matters are fundamental, and I suspect that even the Bill does not deal with them entirely. The emphasis in the Bill is on creating a system to deal with the poor, whereas the tax credit system set up by the Labour Government enabled people to work, better themselves and improve their position.

The clause represents a fundamental difference in approach; this is not just a regularising proposal. Tax credits did not take capital into account, other than through a reference to income that could be derived from it. Some Government Members have said things like, "Are we suggesting that somebody with £500,000 should get tax credits?" Under the tax credit system, that did not happen, because the income generated from £500,000 would have rendered someone ineligible, so we can ignore such comments altogether.

However, a lot of people might find themselves in the position of having some savings or capital. Personally, I think that we are extremely harsh on such people who are on out-of-work benefits. Ideally, one would want to address that. Interestingly, the Centre for Social Justice has also said that it is not desirable to be so harsh on people who have savings when they are out of work. Effectively, people will be made to use up those savings if they are on out-of-work benefits for a prolonged period, whether due to ill health or for other reasons.

Sarah Newton (Truro and Falmouth) (Con): Does the hon. Lady agree that the Bill is framework legislation? As we reduce the deficit, the economy grows and there is more wealth in the country, the parameters can be changed.

Sheila Gilmore: I am afraid I do not entirely agree, for several reasons. First, I am not convinced that the current Government's policies will have the suggested impact on the deficit. Secondly, this particular approach to social security law goes beyond simply dealing with a difficult financial situation. It expresses a view of how we provide social security to our community and whether welfare is something for others—the poor—in which everybody else has no interest. As Richard Titmuss said in the 1950s, and probably several times in his working life, services for the poor tend to be poor services. That is not an approach that we endorse.

George Hollingbery (Meon Valley) (Con): The hon. Lady is making the perfectly sensible and reasonable point that the existing system spreads welfare up the income scale and makes welfare available to a great many people. As I think I have said, this Government heard evidence from Professor Gregg that a decision must be made about whether to focus our cash on a vulnerable group who find it difficult to get back into work or spread it up the income scale. This Government

[George Hollingbery]

have decided that the cliff edge at 16 hours that prevents people from getting back into work is more important. Does she disagree?

Sheila Gilmore: The question of a cliff edge and the 16 hours is not the matter before us. No doubt we will come to it.

I am particularly interested in the issue of capital, for numerous reasons. As a family lawyer, I dealt with many people of both genders—although women tend to find themselves in the most difficult financial positions after separation or divorce—whose former matrimonial home had been sold and who had some capital or savings left over. If they could not work at all and their capital was over the capital limit entirely, it is true that they immediately became disentitled to receive what was then primarily income support for people in such a position. If their capital was between the lower and upper limits, because there always have been two different limits for out-of-work benefits, they would find themselves having some of that capital taken into account, thereby losing some benefit. What then happened was that for people in that position, the share of what had been built up during that marriage was swiftly eroded, because they had to use it.

4.15 pm

Ian Swales (Redcar) (LD): The hon. Lady makes a powerful argument on people who are jobless. This amendment is for people in work. The Opposition are fighting for people who are in work. Is she arguing that that should be changed, so that more help is given to those who are out of work?

Sheila Gilmore: As I have made clear, ideally, we should address that in the future. I gave that example because, where people were out of work and in that position, and were unable to find work and found it difficult to find work, that was what happened. It eroded that capital. The change in universal credit and the fact that, for the first time, these in-work benefits will have this capital limit applied, will mean that the same thing will happen, even if they are working and trying to improve their position. Any capital that they get out of a settlement will be set against any entitlement that they would otherwise have had.

As I said earlier, one of the refreshing things about the whole tax credit system was the way it enabled many of my clients, who were separated and had become single parents bringing up children, to get into work. If they had savings from their divorce settlement, it would not be rapidly eroded, which is what happened to other people. In that situation, many people will have that sum of money after separation, but it is often not enough to—initially at least—purchase a new home, for example, because that is difficult to do, particularly for those on lower earnings. Many of my clients could not immediately, from divorce, go out and buy another house with their share of the value of the matrimonial home, although they hoped to do so without waiting too long. The Bill says that a person in that situation would not get the additional help that others would, because of those savings. It marks a significant change to how in-work benefits are dealt with.

I have heard Government Members asking, “What would you do? Where would you find the money?” There seems to be a great deal of discussion about cost. The number of people in that position is not as large as we think, but particular groups, such as those who have just come out of separation and divorce, are a niche, but important, group. They want to be able to better themselves and their families. They have achieved a settlement, mainly through negotiation, that was meant to help them set up. It was their share of result of the marriage or relationship that they had been in. Not to disregard that in this situation is to reproduce the problems that happened for those who are out of work. I accept that it has happened with out-of-work benefits for a long time—that was harsh. I was pleased when I could advise those who might be in that position not to go on to out-of-work benefits, because they were able to work through the tax credit system. They could then also preserve the settlement that they had often fought so hard to achieve. That is another group, other than those that have already been mentioned, that would be substantially disadvantaged by the change.

The change is being adopted by the Government for what they think are good reasons, either to equalise those who are out of and in work—although it is equalising downwards, in that we take the lower way of dealing with things—or because of the deficit, where they say there is nothing further we can do about it. Let us acknowledge that it is a change in how we deal with things and let us acknowledge that there are people who will lose out because of this. For all the statements that people will not lose out, those who are in the group that I have mentioned clearly will, relative to their position now, when they shift from tax credit, which, of course, has already been substantially reduced. Some of the figures that were mentioned by the Government have already been changed. Many people are already losing tax credits that they had previously, but that will happen more.

If we want people to get on, one of the ways of getting on is to have some ability to save. Hon. Members have waxed lyrical about the savings habit, so I find it strange that those who think that it is a good thing to encourage people to save will not make arrangements such that they can do so.

Only last week, at Treasury questions, we were told that the Government are minded to set up a new scheme to replace the child trust fund for children in care and that that scheme would start paying money into an account for those young people. When young people reached the age when they would be able to have that money in their hands, they perhaps would not go to college but would get employment. They might well be in the position where the Government have given with one hand and taken away with the other, because those young people would not be eligible for benefits, even if they were on low earnings.

Guto Bebb (Aberconwy) (Con): I have listened to the hon. Lady with a great deal of patience. On Friday, I was at the launch of the North Wales Credit Union, which supports people who want to save. I was proud to be associated with the event. The average savings account in that credit union is about £1,600. I simply do not recognise the argument that she is making about the disincentive for people to save when they need to support

themselves. Most of the people who are saving with that credit union would be absolutely delighted to have £16,000 in a bank account.

Sheila Gilmore: I am sure they would, but, again, we have to think about what we are trying to do. The view is that this is about providing for poor people who will not be able to save and will never have any aspiration to get above, for example, £6,000.

John Glen (Salisbury) (Con): It is unfortunate that the hon. Lady is trying to characterise the opinion of Government Members as an ideological case against the poor. This is, in fact, a matter of making responsible changes to Government policy according to what the country can afford, while leaving reasonable incentives for those people who require assistance from the state. I believe that most people understand that, if they have some savings, they have a responsibility to use them to provide for themselves before they look to the state. That is a reasonable principle, and it does not stop those who really need assistance getting it.

Sheila Gilmore: If we want to encourage people to build up to a position where they can provide for themselves, we should not discourage them from saving.

There is a question about whether we are discussing the poorest—it appears that Government Members feel that such people would never be able to save very much anyway, and therefore this will never affect them—or whether we are dealing with people who become eligible for support through a range of circumstances. My experience as a family lawyer was that, after separation and divorce, many people became much poorer than they had been previously. All the evidence is that that happens predominantly to women. The home that they previously shared has to be sold, and they are now likely have low earnings but also an amount of savings or capital. I do not think that they should have to lose that because they cannot get in-work support.

We have heard that loss of universal credit will result in the loss of the whole bundle of benefits: housing support, child care support and so on. I do not think that that is necessarily what Government Members intended, but I am not sure whether that group was in their mind when they were considering their proposals.

This substantial change of tack on in-work support will act as a disincentive to people to take the step that could lift them even further if they could have something in reserve. That is the other issue that comes up. I was very disappointed when I heard about the framework for universal credit and that this change was being made. We are stepping back from the previously existing situation.

If Government Members want to debate the whole of economic policy and how we would do things differently, we could have that discussion. We are being told at every turn, “You cannot do that because of the deficit.”

John Glen: All we are hoping for is that if an alternative is forthcoming from the Opposition, they will actually cost it. If we are in the serious business of accountable government, we need to understand how much things cost. That was part of the problem with the previous Government, and we have to pick up the pieces.

Sheila Gilmore: We will have to have the debate about where we have come from.

The Chair: Order. Not in this Committee.

Sheila Gilmore: It is relevant. The previous Government's spending too much was not, in fact, the reason for the financial crisis that has affected this and other countries, but I shall not go down that road, Mr Gray.

Sarah Newton: I should like to take us back to the amendment and pick up on a comment that the hon. Lady made about looked-after children and the replacement for the child trust fund. That fund, if it had continued, would have provided a capital sum well short of £16,000. This Government have made firm commitments to looked-after children. We heard a statement from the Dispatch Box about plans for an ISA. It is a real misrepresentation of our commitment to this particularly vulnerable group to say that the capital that we will help them to accumulate would somehow be eroded by this measure.

Sheila Gilmore: I am not suggesting that there is not a commitment. I was glad to hear about it, although I would have preferred that the child trust fund had not been abolished in the first place. Obviously, we had some considerable discussion about that in a previous Committee. Again, Mr Gray, I will not go back to it.

The point I was making was that sometimes Government policies conflict with each other. A genuine commitment to help the group of young people in care may actually conflict with this policy. Sometimes we have to look at whether the whole thing holds together, and whether it holds together well.

This proposal is a step backwards from the kind of policy that we were trying to achieve for people who were in work. I do not think that it is necessary to take this step simply because it appears to make the whole thing more consistent. Just because one group—those who are out of work—does not have something does not necessarily mean that those in work should not. I urge support for the amendment. It does not encompass all the things that I would like in terms of help for people who are in work, but it goes some way towards doing that.

The Chair: Order. Before I call the next speaker, it may be helpful to the Committee if I comment briefly on a couple of things. First, I am the only person in this room whom Members should address as “you”, if that is all right with the Committee. I hope you do not mind my reminding you of that. Secondly, interventions on other people's speeches should be brief and to the point; otherwise, it will take a long time to get through this large Bill.

Kate Green (Stretford and Urmston) (Lab): I am grateful for your guidance, Mr Gray. Clearly, I shall speak in support of the amendment. I shall concentrate my few remarks—you will be glad to hear that, Mr Gray—on some of the areas on which I hope we might get some clarification from the Minister. I am not absolutely clear about some things.

[Kate Green]

I regret what I see as a retrograde step. Whatever the rights or wrongs are around expecting people who are out of work to dip into their savings in tough times, we have in the past been able to ensure through the tax credit rules that at least those who are in work are able to hang on to their savings and therefore be rewarded for the effort that they have made to save. It is a pity to see that being undone.

I understand the questions that the Minister and other Government Members are raising about the cost, but I must point out that there are some real inconsistencies over where we expect the taxpayer to fund people in work in certain circumstances when they are not in receipt of universal credit and where we are now no longer prepared to use taxpayers' subsidy to support them when they are in receipt of universal credit.

4.30 pm

I would be grateful if the Minister could comment on two particular areas. The first is in relation to child care. It is likely that people who have high child care costs, are receiving help under the current tax credit system and have savings are likely to be left in a particularly disadvantaged position as a result of this measure. All of the money that they currently receive to support them with child care costs could be removed.

Such a situation contrasts with the support that we are willing to give people in paid employment who are not currently in receipt of working tax credit support and who, in future, could be in receipt of universal credit. They receive support through the subsidy that is available via the employer voucher scheme, which I ran when I was an employer and which I know is appreciated by middle income families who are not on in-work benefits and who, as I understand it, will continue to benefit in the future.

There seems to be an anomaly here. People on the in-work universal credit are no longer likely to get help with child care costs whereas other families who are not much better off and who are not in receipt of that in-work support will continue to enjoy the support through the tax system.

Secondly, I want to know how the calculation of savings will be made in the context of the universal credit being a household benefit. I know that we are specifically discussing the clause in relation to the single claimant, but the amendments in the group refer to both single and joint claimants together. As for the £16,000 savings limit, will the Minister confirm whether it is £16,000 per member of a household, £16,000 per household, or some other amount per household if the household consists of more than one person?

In that context, will the Minister assure me—I am sure that he will want to give me this assurance—that the money that families have invested in the new junior ISA scheme, the details of which I am unfamiliar with, will not count as part of the household savings? It would seem to be quite invidious if savings that were being set aside for children were then calculated as part of their parents' assets. Families would then be at risk of seeing the household income depleted as a result. I look forward to the Minister's comments on that.

I remind Government Members that we are talking about a sliding scale here. We are not just talking about people with £16,000 or more. As Mike Brewer pointed out in his evidence, the bigger issue is the people with savings well below £16,000 but above £6,000, and he suggested there might be quite a substantial number of them. We will see a lot of people potentially affected by this change in policy, which has left the Opposition very confused. We are finding it difficult to make any sort of assessment of the cost of the proposal.

In conclusion, we again seem to be in the squeezed middle territory. It is the families on modest incomes with modest savings who are being particularly badly hit by this measure. I am surprised that such a proposal is coming from Government Members, who are very concerned about the position of the squeezed middle population. I would very much like to hear the Minister's comments on that.

Chris Grayling: We are in an unusual reverse of position, are we not? What we are hearing this afternoon is the contrast between a plan put forward by a Government who have taken a conscious decision to concentrate resource on those at the lower end of the income scale and an Opposition, who, when they were in power, invested tax credit money in those at the upper end of the income scale. That is a real turnaround in the way that politics used to be. In my own personal view, it is absolutely where we should be. To me, the priority is to help those on the lowest income into work. It is about helping people who are scraping a living or who are on benefits to move into the work place and advance, and it is not about concentrating our resources on those who are further up the scale. I am surprised that the Opposition have taken that view. If they had come forward with a proposal that strengthened the amount of money going to people at the bottom end of the scale and that profited them, we might have given them a fairer hearing. However, these are people who have got savings; they are not the people on the lowest incomes. The truth is that we have to take our decisions. For all the Opposition's comments, the truth is that, in the immortal words of the former Chief Secretary, there was no money left. This country has a massive financial challenge and a huge structural deficit, and we have had to take some tough decisions. The mix of our universal credit proposals strike the right balance for these difficult times.

The nonsense of all this—we have been debating the matter for an hour and a half—is that the Bill allows the Opposition, if they can convince the electorate to enable them to return to office, to do exactly what they have proposed. Paragraph 4(1)(a) of schedule 1—page 101 of the Bill, if anyone wants to find it quickly—specifically allows for regulations to provide for a calculation or estimation of capital that could ignore money in an ISA if a future Government so wished. The Bill is a framework that would allow the Opposition when in government to do exactly what the amendments request.

Stephen Timms: Is there provision in the Bill to treat people who are in work differently from those who are out of work in that respect? I could not find that in the Bill.

Chris Grayling: My understanding is that the Bill would allow, in theory, a future Administration to do that. It is not our intention to do that, but the means of assessing a claimant's capital gives significant flexibility to a future Administration to take policy decisions about different aspects of the universal credit and about different entitlements. There is nothing in our intent that would return to that situation, but I am not aware of anything in theory in the Bill that would prevent that from happening.

Stephen Timms: I appreciate that the Minister may need a moment or two to reflect on this, but I cannot see any basis in clause 5 for distinguishing between those who are in work and those who are not in work. If there is such provision elsewhere, I would be interested to know about it.

Chris Grayling: If the right hon. Gentleman looks at paragraph 4(3) of schedule 1, on page 102, he will see that there is a whole variety of flexibility for a future Administration. Although I am not a lawyer as such, I believe that all the flexibilities there would allow for different cases. I emphasise that that is not something we intend to do, and I do not believe that it is something that any Administration should seek to do. It is wrong that we put different rules in place for those people who are out of work and for those who are in work. One of the benefits of this change will be to end that situation. We have all the flexibilities that we need.

On a couple of points made by Opposition Members, first, the £16,000 is a household total; it is not an individual total. In practice, the average working-age family has savings of £300. The difference between the savings of a single person and a couple is unlikely to have a significant impact on the overall calculations of the universal credit.

On the junior ISA, my belief is that an investment held genuinely in the name of a child is not affected by what would be a joint claim between two adults. However, I will check at the end of the debate, and if I am not correct, I will write to the hon. Member for Stretford and Urmston to confirm the position. Certainly, it is not our intention that assets held in the name of a child should be counted as part of the routine calculations of the payments made to their parents. Those were the key points raised.

I listened carefully to the speech made by the hon. Member for Edinburgh East. Again, such flexibility is in the Bill, which does not need to be amended to include those provisions. A future Administration will have all the flexibility that they need. We are taking the tough decisions now based on the tough circumstances that we inherited. If the Labour party can persuade the electorate in the future that it has the money to do some of the things that it claims to be able to do, that is its concern. For now, we are going to do what is best and right and in the country's interests.

Stephen Timms: We have had an interesting debate, and I am grateful to my hon. Friends for their contributions. First, I shall pick up the question of cost. As I said before lunch, on 28 February, the Minister answered a question from me. He said that the cost of the change would be £70 million, but he is now saying that it is

actually more than £100 million—although I do not think that he gave a precise figure. Certainly, his answer to my hon. Friend the Member for Glasgow North East (Mr Bain) on 22 March, just last week, seemed to imply a larger cost than the figure he is now giving—100,000 people at £2,700 comes to more than—

Chris Grayling: Does the right hon. Gentleman recognise that he must take three things into account in the figures that he is using? He needs to combine the figures for those both in and out of work. For those in and out of work, an increase to £20,000 costs £30 million, and an increase to £25,000 costs £105 million. The issue for existing claimants must be adjusted to take transitional arrangements into account.

Stephen Timms: Yes, I certainly am taking account of that. I shall read out my question, and his answer on 28 February. The question was:

“if he will estimate the cost to the Exchequer of exempting from the £16,000 saving limit for universal credit people who are...in work”.

His answer was:

“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.]

Chris Grayling: That is what I said.

Stephen Timms: The Minister said earlier that the cost would be in excess of £100 million.

Chris Grayling: It is indeed in excess of £100 million when account is taken of those in work and those out of work.

Stephen Timms: The amendment specifies people who are in work. That is what I asked the Minister about, and he replied on 28 February when he assigned a cost of £70 million. I think he is now saying that the amendment would not cost more than £70 million. Indeed, it would cost rather less than that because some people would not have all their savings in an ISA.

Chris Grayling: If I have misunderstood the right hon. Gentleman, I apologise. Our intention is to have the same rules for those both in and out of work. He is obviously arguing for something different.

Stephen Timms: The amendment specifies people who are in work, and that is what we have been debating. I think the Minister is confirming that the cost would be, as he said on 28 February, of the order of £70 million.

I draw the Minister's attention, as I am sure his hon. Friend the Member for Dover would do if he were here, to the fact that there seems to be a conflict with his answer to my hon. Friend the Member for Glasgow North East last week, which spoke in terms of 100,000 people losing as a result of the change—and therefore presumably people who are in work—and that the average amount they would lose would be around £2,700 a year. However, he is helpfully standing by the figure that he gave on 28 February—a cost of £70 million a year as a result of the amendment. It would not accumulate

[Stephen Timms]

and become a large sum in future, as he suggested earlier, but would remain £70 million. If he subsequently decides that that figure is incorrect, I am sure that he will correct the record.

Chris Grayling: It is important to understand that putting money in an ISA can be done year by year, and the rules allow people to have £10,000 in an ISA in year one, £20,000 in year two, £30,000 in year three and £40,000 in year four. There is no cap in the amendment, unless I have misunderstood him.

Stephen Timms: Let me again read to him the question that he answered on 28 February. I asked

“if he will estimate the cost to the Exchequer of exempting from the £16,000 saving limit for universal credit people who are...in work”.—[*Official Report*, 28 February 2011; Vol. 524, c. 210W.]

That was all. I did not limit what was being exempted to the contents of an ISA. My question was simply that if those who were in work were exempted entirely from the cap, what would the cost be? The answer was £70 million a year.

Ian Swales: I may be misreading the amendment, but in terms of how the savings limit would be applied, my hon. Friend the Minister is indicating that the effect would be that the limit would increase every year by people putting more money into ISAs. The limit on the amount of capital that people were allowed to have would increase more and more. My hon. Friend was answering a different question.

Stephen Timms: No. First, I understand the hon. Gentleman’s point about the limit becoming more and more each year, but my question to the Minister was what would be the cost of exempting entirely from the £16,000 limit those who are in work.

4.45 pm

Ian Swales: That is not what the amendment says.

Stephen Timms: I am sorry. The hon. Gentleman is right. The question that I asked was what would the cost be to the Exchequer of exempting entirely from the saving limit of £16,000 those who are in work, and the Minister’s answer was £70 million. I applaud the hon. Gentleman—he is right. The import of what he is saying is that the cost would be rather less than £70 million because of the slightly restricted form that I have proposed in the amendment. What I want to establish is that the cost of the amendment could not be more than £70 million, if the Minister’s answer to my question was correct.

Chris Grayling: I think the reason for the right hon. Gentleman’s confusion is that the answer that I gave him, £70 million, was about a snapshot in time. What he is proposing is based on current levels of savings and a dynamic situation of increased provision year by year. That is a different potential cost to the taxpayer.

Stephen Timms: I am not sure if I am confused. Let me read the rest of the Minister’s answer. I asked him two questions: what the cost was of exempting first, people who are in work, and secondly, those who are working for at least 16 hours a week. He said that the estimated annual cost to the Exchequer for both cases is “around £70 million”. He continued:

“Analysis presents the long-run costs which assume that universal credit has been fully implemented and there is no longer any transitional protection in the system.”—[*Official Report*, 28 February 2011; Vol. 524, c. 210W.]

I respectfully suggest to him that perhaps it is he who is confused rather than me. If his answer to me was mistaken, which it may have been—there is some evidence of that, as the hon. Member for Dover was suggesting before lunch—he needs to correct it on the record. In any case, my right hon. Friend the shadow Chancellor will be assuming that the answer that the Minister gave to me was correct.

I would like to comment on one or two points that other Government Members made in their interventions. The hon. Member for Truro and Falmouth suggested that we ought to see this as a framework within which policy may be made, which is true to an extent. I refer her to the Bill. Clause 5 on financial conditions, a whole clause in primary legislation, is given over specifically to ensure that if someone has more than a certain amount of capital, they will get nothing at all under universal credit.

George Hollingbery: My interpretation of clause 5 does not say that at all. The clause makes provision such that that decision is able to be made, but it does not prescribe the amount and therefore does not put a limit.

Stephen Timms: No, of course it does not set the amount; I am not suggesting that it does. My point is that after four clauses about entitlement to universal credit, which are the fundamental building blocks of the new benefit, an entire clause—clause 5—is given over to ensuring that people with more than a prescribed amount of capital do not get anything at all. That is a pretty fundamental element in the design of the universal credit.

That is not to criticise the Government unduly, but the Committee needs to acknowledge that that is not an incidental matter, but a key building block in the Government’s thinking of how the universal credit will operate. I understand from one or two of the comments that Government Members have made that they feel a bit uncomfortable too, and they are right to do so. It is clearly a key part of the design of universal credit, as the Bill presents it to us.

George Hollingbery: On that basis, why does the right hon. Gentleman not propose deleting the entire clause, rather than seeking to prescribe it in a particular way?

Stephen Timms: As I said, the amendment is a modest proposal—that those who make a serious commitment to save, by placing savings in an individual savings account or some other prescribed account, and are in work should be exempted from the £16,000 limit.

George Hollingbery: Therefore, he agrees in principle with the idea of a capital cap.

Stephen Timms: I was a member of the previous Government for 12 years, as has been pointed out, and took several welfare reform Bills through the House, and we never removed the existing capital cap.

The important point that I am making to the Committee is that, if we are to encourage work and aspiration, those who are in work and have started their journey should find it possible to save and to build up financial assets. They should not be in a position where, if they start to do that, they suddenly have support taken away from them. That is the danger that the Centre for Social Justice so powerfully spelled out in its report. The Committee will want to weigh that danger heavily in considering whether, in the design of the universal credit, we should have such a punitive regime for people who are saving and receiving universal credit on the basis of low income.

I think I heard the Minister right, but perhaps he will correct me if I did not, that he said that the universal credit is designed for people who are “scraping a living”. Before lunch, we spoke about the stigma attached to receiving benefits and about how tax credits have successfully managed to avoid that. If the Minister’s message is that it is all about people who are “scraping a living”, that is an unfortunate phrase to use.

The Minister said that we should give help only to those on the lowest income, but the amendment is not about people’s income; it is about their savings. He will penalise people who, for a variety of reasons, have managed to put together some savings. I always understood that Government Members believe that having savings is a good thing. The clause will introduce a very severe penalty for anyone who has put together such savings.

Chris Grayling: First, does the right hon. Gentleman accept that the current universal credit proposals will benefit most the people on the lowest incomes? Secondly—I have asked this often this afternoon and we have still heard no answer—whatever the amount of money that he might care to decide would pay for his amendment, will he tell us how it would be paid for?

Stephen Timms: For the answer to that question, the Minister will need to wait for the first Budget of a new Labour Government or possibly the election manifesto preceding it. It is regrettable that people in work and wanting to save will have to wait for the election of such a Government before a fair regime is put in place.

Kate Green: Does my right hon. Friend not agree that it is a strange set of spending priorities that seeks to penalise such low-paid working people, while tax advantages continue for higher-rate taxpayers with savings?

Stephen Timms: Absolutely right—my hon. Friend makes that point very well. One might contrast the complete failure of the new Government to do anything about the enormous bonuses paid to bankers, who will be able to enjoy those benefits, and yet to take significant sums from people on low incomes who are putting together some savings.

The hon. Member for Salisbury suggested that we were accusing Government Members of making an ideological attack on the poor, which I think was the expression that he used. I simply draw his attention to the arguments of the Centre for Social Justice, which I think he would want to take seriously. Instead of accepting those arguments, the Government have decided to extend the savings cap to a very large number of people who have never had a savings cap before, or certainly not since the introduction of tax credits. I hope that he and other Government Members will weigh seriously the points that the Centre for Social Justice makes about the damage that such a penalty for saving will create.

John Glen: Another issue that the Centre for Social Justice will want to bear in mind with regard to legislation is the need to take responsibility for one’s circumstances and not to look to the state as the first port of call when one has resources. It is keen to develop that clear principle, which runs through the Bill.

Stephen Timms: But the argument that the “Dynamic Benefits” report spells out is, how can people take responsibility if as soon as they start to put some savings together their income is dramatically reduced? That is what the clause will do to people who are saving, and the hon. Gentleman intervened before to make the point that their savings will not last very long. That is absolutely right: people will suddenly find themselves back at square one, when surely we should put in place an arrangement that allows people to progress.

John Glen: As has been mentioned, the Bill will provide a framework in which the amounts can be changed over time, but the underlying issue that has not been addressed by the Opposition is affordability. We cannot afford to pay for everything; we must prioritise appropriately. Although the incentives are perhaps not as great as everyone would like, the Bill will provide room for movement over time.

Stephen Timms: No, it is not a matter of affordability; it is a matter of priorities. The question is whether we make it a priority that people should be encouraged to save, or will we prevail over an arrangement that will penalise people who are saving to a very significant extent? That is where the Bill’s priorities are wrong.

Guto Bebb: The right hon. Gentleman mentions that this is a question of priorities. Can he confirm that, even if the amendment is accepted, it is still a fact that anyone who is currently unemployed, which I suspect is the largest calamity that anyone can face, would forgo their benefits if they had savings over £16,000?

Stephen Timms: That has always been the case, and I have made the point on a number of occasions. Throughout the previous Government’s term, there continued to be a savings cap in means-tested out-of-work benefits. In 2006, the cap was doubled—it had been £8,000—but it was never abolished, and I am not proposing that it should be. My point with the amendment is that people on modest incomes should be able to save, and the clause will prevent them from doing so in a pretty draconian way.

Ian Swales: Returning to funding, will the cost of the right hon. Gentleman's proposal be covered by savings that he will suggest elsewhere in the Bill, or will it be a spending commitment outside the Bill? If so, given that the Government propose that we will still be borrowing money in five years' time and that the Labour party proposes that we will probably do so for 10 years, his proposal will be funded by UK borrowing. Does he think that that is the right way to go?

Stephen Timms: The hon. Gentleman will have to wait for a future Labour Budget to get the full answer to his question. However, I will conclude with the point that we should have an arrangement that encourages saving rather than penalises it, particularly with a reform that could set the shape of the UK welfare system for some time. That is particularly true for people in work who want to progress and build a better future for themselves and their families.

5 pm

Anas Sarwar (Glasgow Central) (Lab): Does my right hon. Friend agree that the reforms should promote aspiration? Aspiration should be a central plank of the Bill. The Centre for Social Justice said that a savings penalty created a disincentive to save and was an unfair penalty on those who have saved. Deven Ghelani, who gave evidence to us last week, said:

"It is fundamentally a disincentive to save. I think that the savings limit for people who are not working and are on benefits has been £16,000 for"—

he did not know how long but thought it was a good many years. He continued:

"By extending that to people who are working, people who get close to that threshold might suddenly realise that it does not pay to save and that there are perhaps other things that they should be doing with the money, whereas saving is in itself a protection against dependency."—[*Official Report, Welfare Reform Public Bill Committee*, 22 March 2011; c. 18, Q23.]

I would expect the Government to celebrate that fact.

Stephen Timms: Mr Ghelani made that point very eloquently. Indeed, I would have also thought that his comments had greater resonance. Certainly, that perspective is not reflected in the Bill. My hon. Friend is absolutely right.

Charlie Elphicke (Dover) (Con): I apologise for not being in my place earlier; I was detained in the main Chamber presenting a Bill. Before we adjourned for lunch, we were debating how much the amendment and the policy would cost. Numbers seemed to vary from £300 million to £500 million. Can the right hon. Gentleman explain how much it is and whether this is a pledge that a future Labour Government would enact immediately?

Stephen Timms: I am grateful to the hon. Gentleman. I am happy to rise once again to answer that question. I appreciate that he could not be here at that point, but let me read again my parliamentary question, which was

"To ask the Secretary of State for Work and Pensions if he will estimate the cost to the Exchequer of exempting from the £16,000 saving limit for universal credit people who are... in work".

The reply was:

"The estimated annual cost to the Exchequer of exempting from the £16,000 savings limit for Universal Credit for people who (a) are in work is around £70 million... Analysis presents the long-run costs which assume that Universal Credit has been fully

implemented and there is no longer any transitional protection in the system."—[*Official Report*, 28 February 2011; Vol. 524, c. 210W.]

Before lunch the hon. Gentleman expressed some scepticism about the accuracy of the Government's figures. He might have some grounds for scepticism, because another answer that the Minister gave to my hon. Friend the Member for Glasgow North East last week appears to suggest that the figure might be somewhat larger than that. The answer that I received on 28 February has not been corrected. The Minister has reaffirmed it in his answers to me today, so it does appear that the figure is £70 million.

Charlie Elphicke: There has been some doubt about the figures, but the right hon. Gentleman previously quoted the Social Market Foundation, which said that 100,000 people would lose £2,700 on average. That amounted to £270 million, before the dynamic effects of people mass avoiding using ISAs, so the figure is well north of £300 million. Is he giving a pledge to implement his policy even if it cost £300 million?

Stephen Timms: Let me correct the hon. Gentleman first. The reference to ISAs in the amendment, which was not in the question that I asked, nor in the analysis carried out by the Social Market Foundation or anyone else, would limit the cost, not increase it, because everyone has been considering the long-run cost if there were no cap at all. The fact that the amendment only deals with savings that are in ISAs clearly restricts the maximum amount that we could consider. Even if everyone had piled all their savings immediately into ISAs, the cost could not be more than £70 million—the figure elicited by my question on 28 February.

If the Minister subsequently decides that his figure was incorrect on that occasion, he will no doubt correct the record. The hon. Gentleman makes a perfectly fair point. How do we know what the true answer is? I do not think that we can do any better than to ask the Minister the question and receive the answer that is on the record. I gather from the Minister's nods that he confirms that answer today.

Question put, That the amendment be made.

The Committee divided: Ayes 10, Noes 13.

Division No. 1]

AYES

Buck, Ms Karen	Green, Kate
Curran, Margaret	Greenwood, Lillian
Elliott, Julie	Pearce, Teresa
Fovargue, Yvonne	Sarwar, Anas
Gilmore, Sheila	Timms, rh Stephen

NOES

Baldwin, Harriett	McVey, Esther
Bebb, Guto	Newton, Sarah
Ellison, Jane	Smith, Miss Chloe
Elphicke, Charlie	Swales, Ian
Glen, John	Uppal, Paul
Grayling, rh Chris	Willott, Jenny
Hollingbery, George	

Question accordingly negatived.

Clause 5 ordered to stand part of the Bill.

Clause 6

RESTRICTIONS ON ENTITLEMENT

Stephen Timms: I beg to move amendment 9, in clause 6, page 3, leave out lines 21 and 22.

The Chair: With this it will be convenient to discuss amendment 10, in clause 6, page 3, line 23, leave out 'or (c)'.

Stephen Timms: I want to suggest through these amendments that there should be an entitlement to universal credit as soon as a claim is made and the entitlement conditions are satisfied. At the moment, there is a waiting period in some means-tested benefits, but not in all, so the Government need to decide—this is starting to become familiar—which of the preceding conditions apply to the new benefit. There is a choice depending on which of the preceding benefits we look at, and in universal credit, one will need to be applied universally. It looks to me as though the Government have chosen the least favourable option that currently exists and have decided to apply it universally.

A strong argument can be made that there ought to be no waiting period for means-tested support through universal credit and that payments ought to be payable from the date on which entitlement conditions are satisfied. An obvious problem with introducing such a waiting period is the cost of housing. People's rent does not wait, but if there is a waiting period, they will get no support for their housing until that period is over. I hope that the Minister accepts that we should not be driving people unnecessarily into debt, and that in universal credit, there really ought not to be a waiting period. I think that I am right in saying that there is not currently one in housing benefit.

Chris Grayling: Let me address the amendments, which seek to remove the provision for waiting days in universal credit from clause 6. The clause provides for restrictions on entitlement to universal credit, allowing for regulations to determine circumstances in which entitlement does not arise. Among other provisions, the clause provides for an award to begin only after a specified number of days have elapsed since the date of the claim.

The provision brings the waiting-days rule from existing out-of-work benefits, and as the right hon. Gentleman said, that is simply an establishment of the conventional position for new out-of-work claims. Claimants are protected by the provision that limits the number of waiting days under the clause to a maximum of seven days. As an in and out-of-work benefit, universal credit will require fewer claims as circumstances change, which is the important point to understand. It will only impact on absolute, brand-new claims, because when someone is an established claimant of universal credit, if they move into and out of work, they will remain on universal credit throughout that process, without making a new claim.

There is a practical side to how we must handle things, however. As hon. Members are aware, there is a significant cost to handling benefit claims. It has been estimated, for example, that it costs in excess of £40 to

process a single claim for employment and support allowance, which is why waiting days are a long-established feature of the benefits system. They discourage claims from people who know in advance that they are likely to need support from the taxpayer for only a very short period.

We are involving customers and their representatives in the design of the service. That process is essential to ensure that we build a usable, efficient service, which delivers on its objectives. It also means that universal credit delivers substantial savings in the cost of handling a claim. It is important, however, that we retain the principle of waiting days to prevent payments for very short periods at the beginning of an award. That only applies to people who are moving into and out of eligibility for a very short period, which is what we seek to address. If a person moves into and out of work in a mini-job, with the universal credit system as support, they will move into and out of benefits at the same time.

Stephen Timms: If I understand correctly how that would work, a person would have to wait for however many days it is before they receive any housing benefit. That is a less favourable position than the existing one, as I understand it, where I do not think that there is any waiting period for housing benefit. Will the Minister confirm that? I take the point that there are waiting periods in some means-tested benefits, but not in housing benefit, where it could be particularly important.

Chris Grayling: No, I must correct the right hon. Gentleman. The rules for housing benefit are slightly different, in that normally a claim for housing benefit is payable from the start of the week after the claim is made. In some respects, therefore, a shorter period might apply if we have, for example, a three-day waiting time rule. Housing benefit is normally paid from the Monday after the date of the claim, which means that there could be a wait of up to six days before payment starts. We think that this is simply a prudent technical measure to maintain the existing system's safeguards. We do not believe that it disadvantages any claimants, but it discourages what Governments of all persuasions have always sought to discourage, which is people making very short claims when they literally have a couple of days between moving out of a well-paid job, then back into a similar job. That is the sole purpose of the proposal, so I hope that that gives the right hon. Gentleman sufficient comfort to be able to withdraw his amendment.

Stephen Timms: I am grateful to the Minister for his helpful explanation. It is not my intention to press the amendment to a vote, so I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

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

Stephen Timms: I want to ask the Minister a question on clause stand part. I mention in passing this rather nit-picking point, but it is worth drawing the Committee's attention to it, because it could be more significant in the future. The regulations under subsection (3) were not included in the bundle we were sent last night. We have two sets of notes on the clause, the first on

[Stephen Timms]

subsection (1)(a) and the second on subsections (1)(b), (1)(c) and (2). I suspect that we are not missing a great deal, but it is important that the regulations are provided to the Committee ahead of each sitting.

5.15 pm

I shall also take the opportunity to make a slightly wider point about regulations. It has been specified that all the regulations with which we have been provided so far will be subject to the negative procedure, and later in the Bill it is made clear that everything under this part is envisaged as going through under the negative procedure. I am troubled by that because we have not seen all the regulations, and the Minister has been frank about the fact. The note we received for this clause says that the timetable for bringing forward the regulations is 2012, so no one will see the regulations before the end of the scrutiny of the Bill, either here or in the other place. I would have thought that certainly some of the regulations ought to be scrutinised by Members before they are enacted, and I am worried that the current arrangements do not seem to allow for that.

Chris Grayling: First, I apologise to the Committee if the notes were not there for those particular regulations, and I will ensure that the situation is remedied, but as the right hon. Gentleman rightly says, I do not think that there is a lot missing. Subsection (3) refers to subsections (1)(b) and (1)(c), so there is no separate power in that respect, but I am sorry that we did not clarify that in the notes.

Stephen Timms: I do not think that that is quite right. The first note that we have refers to subsection (1)(a) and the second refers to (1)(b), (1)(c) and (2). My point was that there was nothing in respect of subsection (3), which refers to regulations. We do not have a note about those regulations.

Chris Grayling: I am happy to ensure that that is clarified, but I think that this is a technical issue rather a substantive missing block of regulations.

On the negative procedure, it is always open to Members to request a debate. To have the affirmative procedure applying to all regulations on universal credit would involve putting the right hon. Gentleman into a Committee on many occasions, whereas I think that he has the judgment to be able to work out when he wants a debate and when he does not. He is a knowledgeable figure on these matters and I am happy to trust his judgment. We think that the negative procedure should apply to much of the Bill, but there are places where the affirmative procedure will clearly be necessary.

We have already touched on aspects of this, but I just want to clarify that subsection (1)(a), on the prescribed circumstances, refers very much to the need to restrict entitlement for specific groups of people, such as those in prison or children leaving full-time care, when there is a need to exempt someone from the system. It is used in only a small number of specialist cases, but I am sure that everyone agrees that we do not want to pay universal credit to people in jail. The provision is designed to allow us the flexibility to deal with that kind of circumstance.

Question put and agreed to.

Clause 6 accordingly ordered to stand part of the Bill.

Clause 7

BASIS OF AWARDS

Stephen Timms: I beg to move amendment 11, in clause 7, page 3, leave out lines 32 to 35 and insert—

‘(3A) Regulations shall make provision for universal credit to be payable in respect of a period shorter than an assessment period at a pro rata amount, including at a frequency of twice per month.’

The amendment is on an important matter for people who struggle to make ends meet. It is proposed in universal credit that there be a default that payments of the credit occur monthly. We argue that there should be an option of at least fortnightly payment instead, when that will help. In reflecting on the matter, I have noticed the helpful note provided by Family Action that I imagine was sent to all Committee members. It shows the sort of circumstances in which having to wait a month between payments could cause serious problems. It quotes a Family Action service user who is already having problems dealing with the fortnightly payments that are a feature of employment and support allowance:

‘A: You get your ESA every two weeks, which is annoying.

Q: Why is that? How often would you like it?

A: Every week. I just feel money coming in every week is just so much more useful. For people who can’t budget. Because I know how much money I am supposed to spend every week, but it is very hard for me to keep it in that. I always forget something.

Q: Is that to do with your mental health problem?

A: It is, unfortunately. One thing with bipolar is a lack of judgment...I go through phases getting obsessed with buying all sorts of foods. At one point my husband had to tell me to stop buying butter because I was buying it every time I went out thinking we were running out. Because I couldn’t judge how much was being used.”

The discussion goes on. That particular person, who receives disability living allowance, says:

“The way it is at the moment, I have ESA every other week. One of the weeks I do not have ESA, I have the DLA which kind of covers. So three weeks I have roughly the same amount of money coming in and I have one week where I am actually £300 short. Which for any normal person it wouldn’t be a problem because all they would have to do is take a bit out of those weeks and leave it for the last week. Some months I am actually quite good and I manage to do it but the next month I am...you know? And then I get afraid to look at the bank account and that is when it gets bad.”

That is a telling account, and it shows graphically what kinds of problem people could run into if they have to wait not two weeks, as they do currently, but a whole month before receiving payment.

Paul Uppal (Wolverhampton South West) (Con): About a month ago, the right hon. Gentleman might have heard Radio 5 Live cover the issue of budgeting for people who suffer from bipolar disorder. It is a roller-coaster event. Most of the respondents who rang in specified that they do not always want money in their pocket; they sometimes want the discipline to budget. They said that if money was in their pocket all the time, they would feel the need to spend it, and that if money was sometimes withheld from them or somebody was responsible for them, it was actually beneficial in the long run.

Stephen Timms: Sadly, I did not hear that particular programme. It sounds interesting. However, I point out that having to wait an entire month between payments will be hard, as I think that Ministers probably recognise. We suggest that we ought to put on the face of the Bill the ability to have a fortnightly payment. We might want to circumscribe the circumstances in which that option is available, but it would help to be explicit, as we are proposing.

Harriett Baldwin (West Worcestershire) (Con): I accept that budgeting is difficult for lots of people, whatever the time period. Did the shadow Minister see the evidence given to the Select Committee on Work and Pensions by the Department saying that precisely those points were raised when benefit payments were changed from weekly to fortnightly, and that those concerns did not materialise?

Stephen Timms: I have not seen that evidence, but I am aware that those concerns were indeed raised when we went from weekly to fortnightly. My concern is that we are going from fortnightly to monthly, and for a lot of people, a month is a long time. That can only accentuate the difficulties. Some people will encounter problems if they do not get anything at all until the following month.

Sarah Newton: I am sure that the right hon. Gentleman is as concerned as we are about the extent to which people living on low incomes are financially excluded and not receiving the sort of help that would help them to tackle those issues. Does he agree that the Government are doing exactly the right thing in introducing new accounts—perhaps an improvement to the Post Office card account—which will enable benefit recipients to get their money into a low-cost, no-frills bank account, with supporting financial advice and the benefit of being able to pay by direct debit? Many people on green giros or even with a Post Office card account cannot pay through direct debit. The Government are doing a series of things to help with the budgeting issues described by the right hon. Gentleman.

Stephen Timms: The hon. Lady is certainly on to something important, and that is why the previous Government introduced basic bank accounts, and encouraged banks to offer those to their customers. As a result, we significantly increased the number of people with bank accounts, and reduced the number with no bank account at all. I am glad that the new Government are continuing that.

The hon. Lady has made an important point about financial literacy support, which I welcome. I am glad that the previous Government's financial inclusion fund, which appeared to be threatened with abolition, will continue. It is essential that the new system reflects people's lives as they actually are. I hope that the Minister will feel able to recognise the importance of payments being available at least fortnightly in some circumstances, rather than monthly.

Charlie Elphicke: The right hon. Gentleman is being extraordinarily generous in giving way, and is a very experienced Member of this House, having been in the Cabinet in the previous Government. Will he tell the

Committee about his knowledge of the move from weekly to fortnightly and the evidence of the effect that had on people's ability to budget?

Stephen Timms: I am reassured by what we have heard from the hon. Member for West Worcestershire about the evidence given by the Department to the Select Committee. I would not feel able to infer from that that the move from fortnightly to monthly will not cause any problems. In some cases it most certainly will. Some reassurance, therefore, about the availability of a more frequent payment in some circumstances is necessary.

I accept that what I propose in the amendment could be delivered through the regulations that will be brought forward. The Minister may be able to reassure me that that is the Government's intention.

Charlie Elphicke: Are not the overwhelming majority of people in the world of work these days paid monthly? It therefore makes sense that the universal credit should be paid monthly. Is there also not a risk of saying, "People on benefits cannot manage their money"? There is a danger of being ever so slightly patronising. We should have more confidence in people who happen temporarily to not be in work, but who often go back into work and live life just as they did previously.

Stephen Timms: We were reminded by one of my hon. Friends earlier today that not everyone gets paid monthly. A significant number are still paid weekly, and there are those who are paid on an occasional basis as well. It is not the case that everyone gets paid monthly these days. We should not conclude legislation that is perfectly appropriate for the majority—even for the great majority—if it creates serious difficulties for some, and potentially for a significant number. I want to avoid those difficulties being caused unnecessarily.

As I have said, regulations will allow for the provision of such an option, although I did not find the explanatory note very reassuring on that point. It may be that the Minister can go a little further than the note did. For some people—not everyone—this is an important matter, on which I hope that the Minister will be able to reassure me.

Kate Green: I want to speak briefly in support of my right hon. Friend. I want to make two additional points. The first is a point that I raised this morning. There is substantial research evidence to indicate that people in low-income households run out of money already in the current system. I am deeply concerned that this change will make their situation more precarious and put them at risk of getting into debt. As we know, in those circumstances people are particularly vulnerable to some of the more extortionate lenders.

I would be grateful if the Minister could indicate what assessment he has made of the group of people who currently struggle financially. How large does he think the group is? What assessment has he made of their propensity to fall into debt? That is particularly important, because debt may trigger the need for hardship payments or advance payments in the universal credit system, so, clearly, the Government will want it to be avoided.

5.30 pm

My second point follows the helpful briefing that we received from Family Action, which highlights the difficulty of the benefit claimant in receipt of employment and support allowance. It describes how in the weeks when ESA is in payment, it is fine. In one of the intervening weeks, they receive their DLA, which helps them to cope with the third week of the month. One difficulty we have with the universal credit is that more and more separate benefit payments are being bundled in together. Not all the eggs, but many of the eggs are in one basket. That also creates a difficulty for people who find it easier to manage if a little bit of money comes in one week through one benefit stream and a separate chunk comes in a following week through another benefit stream. We will lose some of the advantages of that for the small but vulnerable group of people who find that it is how they can best budget.

As my right hon. Friend has said, we are not insisting that the universal credit should be paid more frequently than monthly. We are asking that that option be in place, where it is appropriate for vulnerable people and that we do not worsen their financial situation by failing to have the option in regulations. We would like to hear assurances from the Minister on that point. I very much hope that he will give them to us this afternoon.

Chris Grayling: As Opposition Members have said, the amendment clarifies the duration of the assessment periods and the frequency of payments in universal credit. It provides for universal credit to be payable for each complete assessment period during the time when the claimant is entitled to the credit. The length of the assessment period will be set in regulations, which is broadly similar to what happens now. That approach will allow us the flexibility to set this important aspect of the scheme in the light of detailed delivery considerations and the views of stakeholders.

I am aware of some of the issues that the hon. Member for Stretford and Urmston has raised and of the concerns out there. Regulations can also provide for exceptions to the rule that universal credit be paid only for a complete assessment period. Provisions might, for example, allow for payments for part of an assessment period at the beginning or end of an award.

The assumption behind some of the representations that we have received and the core assumption that one would read into the amendment is that the duration of the assessment period will be one month. The amendment would require the Government to pay universal credit more frequently than monthly, and, in some cases, payments would be made twice monthly. Hon. Members are right to say that the existing assessment period is normally fortnightly. Universal credit clearly adopts a new approach, because it brings together in-work and out-of-work benefits.

We have been clear: we said in the White Paper published last year that we can see the advantages in paying and assessing universal credit monthly. If we are looking to move people into work, there is clearly a logic in helping them to align their family budgeting and financial planning to the world that they will be in if they are receiving monthly payments from their employers. However, we are equally well aware that many on low incomes are used to managing fortnightly payments of

benefits, so we are determined to ensure that, however we finally resolve to approach this issue, there is appropriate budgeting support to meet the needs of claimants.

We want families to manage their financial affairs in a manner that best reflects the demands of modern life, whether they are in work or out of work. We will work with stakeholders and external experts to work out the best way of doing that. We are genuinely attracted by the monthly approach, but we are sufficiently open-minded to recognise the issues that it generates. We are certainly not ruling any option in or out at the moment. We have not excluded the possibility of fortnightly assessment payments, but we are attracted to the possibility of paying universal credit on a monthly basis.

Kate Green: Will the Minister clarify whether any IT issues ought to be considered, given that we are looking at a two-week payment system for out-of-work benefits and a four-week payment system for tax credits? Neither of those is exactly a monthly system. Given that we are talking about bringing together two payment systems that seem to address different periods into the new single universal credit payment system, can he give us some information on the operational considerations to which he has alluded?

Chris Grayling: As we are starting from scratch with a new system to operate the universal credit, there are no particular administrative issues. We can decide what is best for the claimants, but we will look at that from both perspectives. We will look at it from the perspective of what is most likely to help claimants make progress into work, as well as addressing some of the issues around vulnerable people, which the right hon. Member for East Ham has rightly described. We do not intend to specify the payment frequency in primary legislation. That is where we are at the moment. This is not a new departure. With existing benefits, we deal with the frequency of payments under regulations made under existing powers in the Social Security Administration Act 1992. That is something the shadow Minister's Administration used when they were in office.

As I have explained, we will take views and look carefully at the issues before regulations are prepared. This is one of those issues on which it would be easy for Ministers to rush in ahead of a Bill going through the House. However, it makes logical sense to take a bit of extra time to define exactly what we are going to do. There are pros and cons on both sides of the argument. We want to get it right, and we want to have the flexibility to enable us to get it right. I recognise the real expertise that exists on the Opposition Benches in this area. Given the discussions that have taken place between our Department and the shadow Minister and his team, I hope that he realises that there are many aspects of what we are doing where we are genuinely willing to engage and discuss. At the end of the day, we want to get the legislation right and for it to be durable for a long period. I give him the assurance—indeed, I give all hon. Members the assurance—that we are mindful of the matter and that we are thinking carefully about it. We have not taken a final decision. There are pros and cons on both sides, but we are simply using the same building blocks for this legislation that have been previously used for existing benefits. On that basis, I hope that the right hon. Gentleman will withdraw the amendment.

Stephen Timms: I am grateful to the Minister for the tone that he has adopted in responding to the amendment. This is a very important matter for some people, as he has acknowledged. It is important that the Department consults carefully on the issue and listens to the responses that it gets. I am grateful for those reassurances. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 7 ordered to stand part of the Bill.

George Hollingbery: On a point of order, Mr Gray, I tried to pass you a note to warn you that this was coming up.

The Chair: There was insufficient time.

George Hollingbery: Indeed, I apologise for that. There are a great many pieces of paper relevant to many different sections, clauses and paragraphs in the Bill. I am finding my iPad very useful for bringing each one up as I need to do so. I think it is a matter of courtesy that I should ask you whether that is permitted, Mr Gray, because although I think previously you proscribed the use of such devices, the Select Committee on Procedure has since offered a different opinion.

The Chair: The point of order is an interesting one because the hon. Gentleman is quite right. The Procedure Committee, on which I serve, produced a report last Thursday that said it may be the case that the House will consider the question of using electronic devices in the Chamber in the future. For the moment, the Standing Order that currently exists and that will continue to apply states that electronic devices may not be used either in the Chamber or in Committees except for minimal purposes. It may be that there will be a debate on the matter—perhaps in Westminster Hall—and that an order will be brought before the House to change the Standing Orders. As someone who divided the Procedure Committee on the matter, I have to say that I strongly support that. However, for now, electronic devices may not be used except in a minimalist way to receive and send brief messages.

George Hollingbery: I thank you for that guidance, Mr Gray. I offer my apologies for using an electronic device without your permission.

Clause 8

CALCULATION OF AWARDS

Stephen Timms: I beg to move amendment 16, in clause 8, page 4, line 10, at beginning insert ‘for employees’.

The Chair: With this it will be convenient to discuss the following:

Amendment 12, in clause 8, page 4, line 12, after ‘percentage’, insert ‘not exceeding 60 per cent.’.

Amendment 17, in clause 8, page 4, line 12, leave out ‘and’ and insert

‘or for self-employed people an amount in respect of earned income calculated in the prescribed manner (which may include multiplying some or all earned income by a prescribed percentage), and’.

Stephen Timms: There are two topics dealt with by this group of amendments. One is about the taper rate that is to be applied to universal credit and the other is about the treatment of the self-employed in universal credit. I will, if I may, deal them in that order.

Amendment 12 deals with the taper. In discussions about universal credit and welfare reform, the Government have understandably said a good deal about marginal deduction rates. The subject is important. The Government have a tendency to overstate the importance of marginal deduction rates as in-work incentives. The current shortage of work in many parts of the country is a much more important constraint than anything that the welfare system provides. The best work incentive in the world is not much use if there is no work to be had. Given the importance that the Government have attached to this subject, it is striking that they are actually making matters worse on this front. The impact assessment that has been produced for this Bill shows that more people will experience increased marginal deduction rates than decreased rates.

The Government made matters worse before we even got to this Bill. The number of people facing marginal deduction rates over 71% in 2011-12 was heading towards 365,000 after the Budget of March last year, which was introduced by the previous Government. Following the June Budget, which was introduced by the new Government, the number facing marginal deduction rates in excess of 71% will be 1.71 million, which is an enormous increase. Those data are taken from a written answer given to me by the Treasury on 22 March.

Before we ever got to the Bill, we had gone significantly backwards on this front. The impact assessment tells us what the Bill will do. Paragraphs 67 and 68 state:

“Some 2.1m individuals will have higher MDRs under Universal Credit...Many of these cases will move from an MDR of 73% to 76.2%...Around 1.5 million individuals will have lower MDRs under Universal Credit.”

Marginal deduction rates, which we have been told are important for work incentives, will get worse for some 600,000 people—that is more than the number of people for whom the rates will get smaller. It is true that universal credit should eliminate the very highest marginal deduction rates. In relative terms, there were not many people who were on those very high marginal deduction rates before. Certainly, there were many fewer than there were under the system that the previous Government inherited in 1997, when a significant number of people were on very high rates. The previous Government made significant moves including the tax credit system, which greatly reduced the problem of very high marginal deduction rates.

Nevertheless, there are still some people—a relatively modest number—on high rates, and the introduction of universal credit should allow significant further progress to be made. However there are two caveats to that. First, it is subject to whatever the Government eventually decide on child care, and we cannot, at this stage, say precisely what impact any proposals will have on marginal deduction rates, because we do not yet know what they

[Stephen Timms]

are, but we look forward to finding out before the Committee concludes its deliberations on the Bill. We must bear that caveat in mind at this stage.

5.45 pm

The second caveat is that, at least in some local authorities, the whole edifice could be completely messed up by what happens with council tax benefit. If, as appears to be the intention, local authorities will have complete freedom in how they divide council tax benefit and the taper rates that they apply, at least some might once again have problems with very high marginal deduction rates.

Charlie Elphicke: I note that amendment 12 would change the percentage from 65% to 60%. Will the right hon. Gentleman tell the Committee how much that will cost?

Stephen Timms: Once again, I am looking forward to getting to that in my speech, and I am grateful to the hon. Gentleman for raising the subject. A large group of people had a marginal deduction rate of 70% in 2010-11, but they will have a rate of 76.2% in future. That figure is well established in the impact assessment, which says that the Bill will change the marginal deduction rate from 73% to 76.2%. I want the Committee to look back at the position of those people before the June 2010 Budget, when the marginal deduction rate was 70%.

Charlie Elphicke: The right hon. Gentleman is being courteous and generous in taking interventions. My research has indicated that a variance from 65% to 60% would cost about £1.3 billion. Does he agree with that figure?

Stephen Timms: The hon. Gentleman is right to say that the figure will be rather more than £70 million, which was what we debated last time. If he will be a little patient, I will come to that point. People whose marginal deduction rate will alter from 70% to 76.2% will face a big change. If they can increase their income in some way, instead of keeping 30% of that gain, which was the proportion that they would have received under the former system, they will now keep only 23.8%.

Ian Swales: Is the right hon. Gentleman aware that, because of the multiplicity of benefits under the old system, some people have marginal deduction rates of more than 100% when taking work? I have certainly met constituents for whom that was the case. Does he welcome the simplicity proposed in the Bill? I support his comments on council tax benefit, because that situation can lead to high marginal rates. I look forward to the Minister's response on that point.

Stephen Timms: That will be an important issue when we get to the debate on council tax benefit. Let me draw the hon. Gentleman's attention to the answer that I received from the Treasury suggesting that more than 270,000 people currently have marginal deduction rates of more than 80%. That is a significant number, although the number who will find their marginal deduction rate

increased from 70% to 76.2% under this Government is larger at 1.7 million. It is important to keep those figures in context. I assure him that the number of people on the very high marginal deduction rate is a great deal smaller now than it was in 1997.

Charlie Elphicke: The right hon. Gentleman, a former Minister, said that the number of people with very high rates is small, but the figure seems to be 500,000. An enormous number of people therefore have marginal deduction rates of more than 80%.

Stephen Timms: I did not say that it was a very large number; I was simply reading the reply that I received on 22 March from the Exchequer Secretary to the Treasury. I accept that the hon. Gentleman has a track record of being rather sceptical about figures provided by Ministers in his Government, but I have no reason to doubt their accuracy. The answer says:

"The following table sets out our estimate of the numbers of working heads of family in receipt of income-related benefits or tax credits facing a marginal rate of deduction in excess of the requested thresholds."—[*Official Report*, 22 March 2011; Vol. 525, c. 952W.]

The table shows that 270,000 people have a marginal deduction rate of more than 80% in 2010-11. Following the June 2010 Budget, that number will rise to 330,000 in 2011-12. It would be wrong to say it was a very small number. That was not the point that I was making. It is smaller than the number of those who have seen their marginal deduction rates increase from 70% to 76.2%. My point is that that is a significant cut in the incentive that people have to increase their income.

George Hollingbery: I hark back again, I am afraid, to Professor Gregg, whom we asked for evidence about financial incentives, which was indeed asked for more widely of the panels who came before us. With higher incomes, the financial incentives were clearly less important. In many cases, they were apparently unmeasurable. We talked before about the bipolar nature of the choice: one looks after the entire range, or one looks after trying to get people back into work. Is this not a necessary and proper consequence of looking after those people below the 16-hour threshold, whom we desperately want to get back into work? We have to get those people through that threshold to allow them to make progress.

Stephen Timms: The hon. Gentleman advances an interesting argument: that marginal deduction rates do not matter too much because we are not that concerned about the incentive that people have once they are in work to earn more or to work longer hours. That is not the argument that his Front-Bench colleagues have been advancing. They have made the point that marginal deduction rates are important. My position is between his and his right hon. Friends. I think that these matters are important, but not quite as important as Ministers sometimes claim in pointing to the advantages, as they see them, of the new arrangements. The hon. Gentleman is right that the key thing is for people to get into work and ensure there is a clear advantage in doing so.

I am a concerned about a matter that also came out of what Professor Gregg told us last week. Given the still pretty high 76.2% marginal deduction rates, some people may well choose to work less rather than more.

All the analysis of tackling child poverty makes it clear that encouraging people who work part-time to work full-time and encouraging the second member of a couple to go into work or to move from part-time to full-time work are the keys to effectively tackling child poverty. I am concerned that we might go backwards on that.

My central point is to recognise the importance that the Government have attached to marginal deduction rates in what they have said about the new system. The key issue, of course—the thing that really determines what the marginal reduction rates are—is the taper rate that is set. The Centre for Social Justice expressed a very clear view in its “Dynamic Benefits” report, which underpins much of the thinking in the Bill. It argues for a taper rate of 55%. Its argument is that that rate represents the best compromise between improving incentives and containing costs. It says:

“A key objective of our proposal is to have a combined tax and benefit taper rate that is lower than today, yet also progressive with earnings. This would mean that those with lower and less secure earnings retain a greater proportion of their benefits than those with higher earnings. We have identified 55% as the preferable withdrawal rate, based on the employment responses of our dynamic model. Setting it higher than 55% would increase MTRs for those working households in receipt of benefits other than Housing Benefit (even if their net income was higher than today). As a result, there would be a negative impact on earnings, and on the number of second earners in employment.”

That is the concern. It has already surfaced a couple of times in our debates, and I am sure that it will surface again in relation to what the new arrangement will do to the incentives for second earners in couples.

The Centre for Social Justice argues for 55%. Mike Brewer of the Institute for Fiscal Studies told us last week in his evidence that a neutral taper rate would be 60% and that anything higher than that would damage work incentives. Indeed, the impact assessment shows us that the 65% figure adopted by the Government will damage work incentives.

Our amendment proposes 60% instead of 55%, which is the figure that the Government have said they favour. The hon. Member for Dover asked a perfectly fair question about the cost of making our amendment. I know that I have a figure for that somewhere, but I have not been able to put my finger on it. Of course, we shall listen to the answer that the Minister gives.

This is an important matter. The Government have rightly said that the taper rate is a key parameter of the new system and that future Governments can choose to set it at different levels. As we debate the Bill, it is important that we have a debate about what the right level of the taper rate should be.

Charlie Elphicke: If the Minister and the Department for Work and Pensions confirm that the cost of the right hon. Gentleman's policy is £1.3 billion, or thereabouts, will he have that policy as a pledge that he would push to a vote? Indeed, does he have permission to do so?

Stephen Timms: The hon. Gentleman will have to wait until we take the vote and then he will see how members of the Committee choose to cast their votes. I am certainly very interested in hearing what the Minister has to say in response to my comments.

Amendments 16 and 17 deal with the position of self-employed people. They are designed to make it explicit that we need separate regulations for self-employed people. I think that we all understand, at least in theory, how the system is due to work for people within the pay-as-you-earn system. There would be real-time earnings data. Every employer in the land will submit their data monthly to HMRC. Earlier the Minister suggested, when he was talking about real-time PAYE data, that submitting that data was a routine matter. I think that he needs to be a little bit cautious about that suggestion, because companies are not required at the moment to provide monthly data to HMRC. They may well compile it routinely, but they certainly do not have to hand it over to HMRC. Under the new system, they will be required to do so, presumably within a pretty tight deadline, and they will have to do so accurately every month. The data will go first to HMRC, which will then pass it on to the DWP and the DWP will apparently pass it on to local authorities.

As I have already said, the timetable for doing all that will be rather problematic, but we can at least see how it is supposed to work. However, we have no idea how this system is going to work for self-employed people. Over the course of a year, it is possible to calculate the income of a self-employed person. That is already done. It always has been done for tax purposes and it is also done for the compilation of tax credits. But how is a self-employed person supposed to notify the DWP of their monthly income for the calculation of their universal credit? Will they be included in the real-time earnings system in some way? If so, how? If not, how will their universal credit be worked out?

This is all a bit of a mystery at the moment. I have not seen any suggestion anywhere as to what the answers to those questions are. I hope that the Minister will be able to give us some answers today. The longer it takes to work it out, the longer it will be before the new system is fully up and running and able to accept all new claims, as is supposed to happen from October 2013.

6 pm

The Government have told us that they will treat self-employed people as if they are earning at least the minimum wage. They will have to notify the Department of how many hours they have worked. The Government will assume that they have earned at least the minimum wage in every one of those hours. Their income will be treated as being at least the product of those two things. The more hours they admit to having worked, the more they will be assumed to have earned, and the lower will be their universal credit. In reality, there is no way that someone starting up in business—for example, after a spell of unemployment, or getting back to work for the first time after a few years off work because of ill health—will be earning the minimum wage for every hour that they work from day one. That is a completely unrealistic assumption, as all of us will appreciate.

That is why the Low Incomes Tax Reform Group told us last week that the self-employed will be getting “a much worse deal than they do currently under working tax credit, particularly if the proposed income-floor is introduced”—that is the assumption that everybody will be earning at least the minimum wage as soon as they enter self-employment. It went on to say:

“It is essential in our view to align the definitions of self-employed income as between universal credit and income tax, in order to recognise investment in essential equipment and trading losses, and to make the crucial distinction between profits and drawings. The working tax credit does this far better than the current social security income measurement based primarily on cash flow.”

It is the latter that the Government seem to wish to put in place to get self-employed people through the system for universal credit.

Jenny Willott (Cardiff Central) (LD): One problem that I am sure the right hon. Gentleman will have had much experience of as a constituency Member is that the delay between information being gathered by HMRC and the individual being in receipt of the tax credit means that things will often have changed massively. The significant amounts of overpayment, underpayment and so on that result cause endless trauma for thousands of people. Does he propose that the self-employed should have to wait until the end of the financial year to submit their tax return, as with tax credits, before a calculation can be made on universal credit? If that is what he proposes, my heart sinks as a constituency Member, because I can foresee years of trauma for self-employed people trying to get the universal credit that they so badly need.

Stephen Timms: The hon. Lady makes a number of points, and I shall respond to them. I completely agree about the difficulties caused by the current tax credit system and the problem of overpayment. She is absolutely right about that, and we all know of many examples; indeed, for a time I was the Minister responsible for the tax credit system, so I am familiar with the difficulties. I am completely persuaded of the advantages of the real-time earnings data system. It will be a huge improvement, and I hope that it will overcome the problem of overpayments that causes such great difficulties. My scepticism is about whether it can be done on time. That is all. I am sure that it is the answer. It needs to be done, but I am sceptical whether it can be done by October 2013.

As for how self-employed people are treated, the hon. Lady will agree that they cannot be treated through the real-time PAYE system. Self-employed people are not in employment, so that seems not to be an option. I am not bringing a proposal to the Committee on how it should be done. I hope that the Minister can explain how the Government envisage it being done, but it seems to be rather difficult.

I am not sure that income for self-employed persons can be defined on a monthly basis, because there will be all sorts of variations from one month to the next. In some months there will be more money going out in costs and little income, but other months will see more income than expenditure. I am puzzled how the universal credit system will do that on a monthly basis. However, I am sure that many of the finest minds in the Department for Work and Pensions have been working on that, and I look forward to hearing the answer. The amendment would merely make it explicit that regulations will be needed to explain everything, because at the moment it is a bit of a mystery.

On a separate point, the assumption that anyone who is in self-employment will earn at least the minimum wage for all the hours that they work is an unrealistic

assumption. The Low Incomes Tax Reform Group has made the point that the tax credit system works much better than that arrangement would for self-employed people. The tax credit system does not assume a minimum income. It is based on information about actual income. As the hon. Member for Cardiff Central has said, it is often in arrears, but at least it uses a realistic figure. It appears that that is not going to be in the universal credit. I am worried that that will discourage people from moving into self-employment at the exact time when that is the right thing for many people to do. I am concerned that this is one of a growing number of examples of incoherence in Government policy.

Different Departments are pursuing policies without talking to each other very much, and they are ending up undermining each other as a result. Sometimes, as is the case here, that is happening between different parts of the same Department. Yesterday saw the launch of StartUp Britain, where the Prime Minister encouraged people to start up businesses and promoted entrepreneurship. Indeed, this Department has itself reintroduced the enterprise allowance, designed to encourage people to move into self-employment. However, through universal credit, the Department is also offering what the Low Incomes Tax Reform Group says is a much worse deal for the self-employed than that offered by the tax credit system. The fact that one bit of the Department is discouraging people from entering self-employment while another is encouraging them to do so means that there is, at the very least, a bit of incoherence and the potential for a serious mess.

We need to get a proper grip on that area and to put in place a coherent policy for supporting self-employment. I hope that the Minister will be able to give us some indication of what the system for calculating universal credit for self-employed people will look like.

Kate Green: Briefly, I want to ask some questions about the proposals for self-employment. I hope that the Minister will be helpful. One of my concerns about imputing income at the level of the national minimum wage to a self-employed person, especially in the early stages of a business, which could last some time, is that it may bear no relation whatsoever to the actual income that they derive during that start-up period and for some time to come. My concern relates to the equalities impact of the proposal, and I would be grateful if the Minister addressed that.

We know that women may be keen to start businesses that they can run at home, because it would enable them to combine earning money with their child caring responsibilities. One of either Mumsnet or Netnums—it is always difficult to remember which is which—is extremely concerned that the measure will have a particular impact on those women who are beginning to set up a business at home. If too much income is imputed to them from that business in the early stages, they will either, as my right hon. Friend has pointed out, be incentivised to under-declare the number of hours they work, or, more likely, work less than they would like in order to get the business off the ground as quickly as possible. I would be grateful if the Minister commented on the proposal's implications for women. I am sorry that this may become a running theme of mine as we proceed through Committee, but it is a real issue and I would like the Minister to comment on it.

Young people are being actively encouraged to set up their own businesses. Indeed, we know that there is quite an appetite among young entrepreneurial people to do so. I would be interested to hear from the Minister—I know that it is an area of interest to him—how the Work programme, and the support that it gives to young people, might begin to work with this provision. They are being encouraged to set up on their own, to run their own businesses and perhaps in time become employers, which would be a very welcome development. How does the Minister feel that the impact will be felt by young people, who will be entering the world of work uncertainly and will need that extra support and stability if they are not to lose heart about work very early on in their working lives, and perhaps leave the world of work for a very long time? I would be interested to know whether the Minister has given any particular consideration to how young people may respond to that particular provision, and whether he has any concerns about that.

Lilian Greenwood (Nottingham South) (Lab): I am reminded of a meeting I had only last week with a group of young men who were working for Groundwork on the future jobs fund. They were young men who had a history of offending but who fortunately, through the help and support that they had received through Groundwork, were developing skills in horticulture. In the course of our discussion, we said that self-employment might be a way forward for them, because of the difficulties that they would face, because of their history, in obtaining employment, particularly in a difficult labour market. Does my hon. Friend agree that they are a group who could be particularly affected by these measures?

Kate Green: That is a really interesting example from my hon. Friend's constituency. Interestingly, I had an instance in my own constituency, just the other day, of a young man who had been working for a local media arts company as a photographer on the future jobs fund, and who had used that six-month period to gain the address book, the contacts book and the skills to undertake some of the specialist training to enable him, now that his future jobs fund placement is coming to an end, to set up on his own. He was startled to realise that the support he had received under the future jobs fund, which he had very much appreciated, might be compromised both for future potential participants—as the fund will sadly no longer be available to young people—and because in the early weeks of setting up his business, he might be imputed as earning more than he actually expected. It was already a big step for that young man to move into self-employment, unclear about what his financial circumstances would be. We do not want to do anything to make that risk seem greater than it already is.

The other group I want to ask about, in terms of equalities impact, is people from black and minority ethnic backgrounds. Again, we know that there is quite a high propensity, in certain ethnic groups, to enter into self-employment. That is partly, regrettably, a response to the discrimination that some experienced when employed in the work force. Often, the only option that they feel is open to them is to set up in business on their own. We also know, however, from our own world experience,

that there is a concentration of small and independent businesses in a number of our ethnic minority communities. There is, therefore, a question about what equalities impact assessment has been carried out in relation to ethnicity, and I look forward to hearing from the Minister on that.

I am surprised that the Minister is not sympathetic to the amendment. I know that his party is an entrepreneurial party and we see it as helping to support that entrepreneurial spirit. We think that the amendment is particularly important at a time when we know that the situation is difficult, with job cuts in the public sector and the hoped-for expansion and job opportunities in the private sector not yet arriving. Self-employment is likely to be a more important option for more people for some time to come. I would very much like to hear from the Minister on the equalities impact assessment that has been carried out and what concerns he has about the amendment, which is one that all parties ought to see as constructive.

Sheila Gilmore: I want to address briefly the issue of the taper. We have already heard much, in the interventions on my right hon. Friend the Member for East Ham, that suggests that we should be constantly looking at the whole question of the current financial position and the Government's policy of reducing the deficit rapidly. What we have here is a new benefit that is not due to begin until later in this Parliament. This is not the rule for today or tomorrow. As one would expect, it will take time—the next couple of years—to get the new system into operation.

6.15 pm

On that basis, we are looking to the future, and if Government are to be believed, we should be seeing the light at the end of the deficit tunnel. That may not turn out to be the case, but if it is, we should be looking to create a benefit system that will best incentivise people not only to work, but to work more if they have the opportunity. We must look to the evidence that we received from a substantial number of people and also look at the thinking of people who have been advocating a system of this kind for some time. Those from the Centre for Social Justice, for example, were clear that a taper of more than 55%, which is less than the 60% suggested in the amendment, would be the best at creating the kind of work incentives that we all want to see. It is not a question of some people not wanting incentives or not wanting people to be able to work, but rather of finding the best way to do that. In looking to the future, I hope that we might reconsider the suggestion that we cannot afford or should not be having a taper that would assist, as Professor Gregg said. He said that 60% would be the neutral position.

On self-employment, which is important, I am struck by the fact that, for example, the DWP is piloting another enterprise allowance scheme. That is not something that has never been tried before, but they have been piloting it in Liverpool with a view to rolling it out countrywide in due course. Much is said about self-employment, and it is challenging for people to take up, particularly if they have been unemployed, because anyone who has been self-employed knows how difficult it is to predict income. It is also difficult to take the plunge, particularly for those who have a family to

support—it is a lot easier for a single person to consider it—because of having to contemplate being on a low income. Many types of self-employment that I hear people talking about are actually quite likely to be low paid for some considerable time.

People might use skills that they have gained through working in a trade previously, perhaps as a joiner, plumber or decorator, but it will take them time, as it would any self-employed person, to build up a customer base. There will be a lengthy period when they will not necessarily have a lot of income. If they think that it will be difficult for them to get support through universal credit, they might decide simply not to do it, because it is too risky. It is important that we are careful about how we work out income for people who are entering self-employment and that we do not set up a calculation system that acts as an immediate disincentive at a time when self-employment might be the best route for many people.

Chris Grayling: There are two separate issues to deal with here, and I will take them each in turn. The first is in relation to the taper. Amendment 12 seeks to provide for a maximum taper in universal credit. The level of the taper determines the effect of earnings and, potentially, other income on the universal credit entitlement.

Most fundamentally, we talked earlier about spending commitments on a relatively small scale. It is important to understand that real choices have to be made about the level of support that the taxpayer can be asked to fund, and the level of the taper. We have to deal with the world as it is, not the world as we would like it to be. The truth is that we are addressing these issues against a background of the most spectacular financial mess, which was created by the previous Government.

I listened to the hon. Member for Edinburgh East and I do not think that she fully understands the scale of the financial challenge that was left behind. It is going to take some considerable time—we have set out a four to five-year programme—to bring down what is by far the biggest structural deficit in our peacetime history. We cannot conceivably continue with such a deficit without leaving the country in a very precarious financial position. That means that choices have to be made.

We have looked hard at what we can achieve, and we are committed to this policy. There is no restriction in the Bill one way or the other about the level of the taper that has to be set; this clause simply sets in place the mechanism for establishing a taper, which is absolutely fundamental to the principle of the universal credit. It establishes the principle that as someone earns more and works more hours, the money that they receive tapers away at a steady rate. There is never a doubt that they are better off in work than they are on benefits.

Inevitably, when one takes a complex and convoluted system such as we have at the moment and tries to align it into a simple, easy-to-understand structure, one has to make adjustments in all direction. That is basically what we have sought to do. Our judgment is that a 65% taper will provide the work incentives that are at the heart of the scheme, and that it will make work pay and be seen to pay. It clearly leaves in place the principle that anyone who is offered a few extra hours of work will always know that they are better off being in work than not being in work.

The universal credit improves work incentives in three ways. The 65% taper represents a substantial reduction in the effective tax rates that are paid by people on low earnings. That is an important point; the biggest beneficiaries are those on the lowest earnings. We estimate that about 1.1 million fewer people who are working 10 hours a week will see a participation tax rate of 70% or more. By removing the multiplicity of different tapers, we will remove the disincentive to progress in work. About 700,000 people who see less than 20p in every £1 of increased earnings will have their marginal deduction rate reduced to below 80%. We think that those are real achievements in the face of a difficult financial position, and we hope to do more in the future. If we can sort out our economic position, we will have the freedom to do more in the future. If we do so, it will be no thanks to the Labour party, but a result of the policies that we have put in place to stabilise and rebuild our economy.

Amendment 12 contains a proposal to reduce the taper from 65% to 60%, and to write that into legislation. That would cost some £1.3 billion per annum. The amendment clearly amounts to an unfunded spending commitment that we cannot afford at present. I am baffled, because we have heard clear messages from the Leader of the Opposition and from the shadow Chancellor stating that the Opposition will not make unfunded spending commitments. An edict went out a few weeks ago to Opposition Front Benchers stating that every spending commitment had to be cleared by the Leader of the Opposition and the shadow Chancellor. Is this a firm spending commitment from the Labour party? This is not a probing amendment; this is something that the right hon. Member for East Ham wants to write into primary legislation, which ties the hands of this Government and future Governments to set the level of the taper at a maximum level. That is an absolutely clear spending commitment. Is he making that commitment to the Committee? Are we taking this amendment seriously? If he is making that commitment, does it carry the weight of the Opposition formally? If so, will he set out for this Committee how it will be paid for? What is going to be cut elsewhere to pay that £1.3 billion bill?

I would love to be able to stand in front of the Committee and say that we will deliver a 55% or 60% taper, and that we will maximise the existing incentives, but unfortunately we have a big mess to clear up. When we have cleared up that mess, the Bill will give us—I hope, as a re-elected Administration—the flexibility to take a decision about how to maximise work incentives in the future. It does not lock us in or tie us down; it simply creates the framework that I described earlier.

The Opposition want to take that flexibility away. They want to write the decision into legislation and they will not tell us how the money is to be found to pay for it. I am afraid that I will take neither them nor the amendment seriously unless they can start to explain that. We asked a question earlier about where a much smaller sum of money would come from. We had no answer at all. I somewhat doubt whether we will get an answer on the £1.3 billion. The Opposition cannot just come up with a huge spending commitment, give no detail about how they will fund it and expect to be taken seriously.

Self-employment is a very different issue. I will say to the hon. Members for Stretford and Urmston and for Edinburgh East who spoke earlier that they are absolutely

right to say this is an extremely important issue. My message on the equalities assessment is that I do not regard self-employment as something that belongs to any race or gender. I want to see self-employment, the creation of businesses and entrepreneurship spread right across every part of our society. What was missed out is that it is also a good way for people with disabilities to get into employment. There are many people who can use that as a vehicle to get into employment.

Let me explain how the Bill is intended to support self-employment. First, we have not provided separately for the self-employed, because the same considerations will apply to their earnings as to the earnings of employed people. We think it is right to have a consistent set of disregards and tapers. Where individuals have earnings from both self-employment and paid employment, as some people do, it is necessary to ensure that there is a consistent system.

Kate Green: I absolutely accept what the Minister says about consistency in disregards and tapers, but the difference between income from earnings and self-employed income is that the income from earnings, not least because it will be gathered through real-time information systems, will be an accurate picture of what people actually receive. Self-employed income will be an imputed amount.

Chris Grayling: If I can, I will explain how we plan to approach that issue. The hon. Lady makes an entirely fair point. There are issues around identifying the earnings that a claimant derives from self-employment. That is not a new issue. Existing income-related benefits and tax credits already have rules to determine the earnings of self-employed people. In general, earnings are assessed on the basis of their net profits. We intend to follow a similar approach in universal credit.

The hon. Lady rightly asked about the mechanics of this approach. We intend to offer individuals the opportunity to self-declare on a regular basis. We intend to develop a system to enable them to do that. That seems the fairest and most straightforward way of ensuring that people can provide timely information. We have to be careful to avoid the mess that we have seen with the tax credit system and try to create a vehicle that allows us to track people's income on a reasonably regular basis and enables us to adjust the support that they receive upwards and downwards, because she is right—self-employment can go through ups and downs. We will need the ability to be flexible, and we think that a system of self-declaration is likely to provide the best vehicle for doing that.

The hon. Lady is also right that we are considering assuming a minimum level of earnings. We have not taken a definitive decision. The point is that we must achieve a balance. If people are not working and they are in receipt of benefits or they are in receipt of the universal credit, there is clearly a job search requirement. A person cannot simply sit there saying, "I am self-employed, so I don't want to look for a job" if in reality they are not bringing in any income from their self-employment. At the same time, there must be a common-sense approach that allows people some flexibility to establish their businesses, and that is one reason why we have introduced the new enterprise allowance in the way that we have. We have indeed learned from the experience

of past schemes. We have added to it the support that has been provided by professional mentors. We recognise that there is a transition point and we need to do this carefully. But equally, as I am sure the hon. Lady would agree, we cannot provide somebody with support indefinitely without any job search requirements if they are not generating income from self-employment. We have to achieve the right balance.

Kate Green: I am following what the Minister says. I apologise if I am not as familiar with the enterprise allowance as I probably should be. But will the Minister confirm that there could not be a situation where the enterprise allowance actually increased the amount of income on which someone who was being assessed was not eligible for universal credit?

Chris Grayling: We will take great care. We have a couple of years in which to do it. We will take great care to integrate the two schemes. The new enterprise allowance enables somebody to receive the full amount of what is today called jobseeker's allowance and what in future will be the basic amount of universal credit for a three-month period. They are then allowed to receive 50% of that for a further three-month period. Basically, that enables them to pay the bills and cover essential costs for a period, while they are building up a revenue stream. Alongside that, they receive start-up finance of £1,000, to buy their initial tools. We have to ensure that, when we develop the fine detail of the universal credit, we allow sufficient flexibility to enable schemes such as the new enterprise allowance to integrate into the universal credit, so that we can provide such support in the future.

6.30 pm

We have not definitively decided how best to address the minimum level of earnings issue, but I am sure that the hon. Lady will understand the necessity is there. We cannot be in the position of a jobseeker being able to say that they are self-employed and so not required to look for a job. At the same time, we want actively to support and encourage people into self-employment, and we will need an approach that enables us to do that.

There is no decision on the frequency of any kind of self-assessment point. The hon. Lady made a fair point about the flows of information sometimes being monthly and sometimes quarterly. We are open to the idea of a quarterly point for people to declare their incomes. Effectively, the treatment of the self-employed is likely to be similar to the current means of assessment under the tax credits, but with that more regular reporting, to avoid the kind of substantial overpayment that we have seen under tax credits. I do not want people starting their business to wait a year to get a proper and full assessment on the universal credit and then being left with a complicated bit of financial dis-engineering to do because the figures are wrong.

I give an absolute assurance to Opposition Members that the current provisions in the Bill—the regulation-making powers and the provisions for earnings—are designed to encompass employment and self-employment. We see the two as integrally linked and of equal importance.

I respectfully suggest to the right hon. Member for East Ham that he does not need to press his amendments, and I hope that he will not. We cannot possibly accept

the lead amendment, and will certainly vote against if he seeks to press it to a Division. If he intends to do so, I trust he will give the Committee the respect of providing some information on how he would intend to pay for the proposal.

Stephen Timms: I am taken aback by the defensiveness of the Minister in discussion of the taper rate. My hon. Friend the Member for Edinburgh East must have touched a nerve to elicit such a response.

Previously, Ministers have told us that the taper rate is a key parameter and we ought to be debating it—perhaps it could go up, perhaps it could go down. The Minister seemed to take great umbrage that we were talking about it at all. He said that the amendment could not be probing because it would change the primary legislation, but all the amendments do that—that is how the Committee works. All we can do is table amendments that would amend the primary legislation. A probing amendment is not, ultimately, pressed to a vote. My intention was not to press the amendment to a Division, but to have a constructive discussion, hopefully, about what the right level might be for the taper rate and to consider a range of views on the topic. I am not sure why the Minister took such umbrage.

Charlie Elphicke: If the right hon. Gentleman is not minded to press the amendment to a Division, will he pledge that a future Labour Government would change the regulations to ensure that that 60% taper rate was brought in?

Stephen Timms: I, too, look forward to a future Labour Government, which I hope happens as soon as possible, but no, I am certainly not committing a future Labour Government to changing the rate.

Of course, it would be completely inappropriate to put a particular figure for the taper rate in the Bill. It is right that it should be set in regulation. The reason for the amendment is to give us the opportunity to debate the taper rate, which is what the Committee is supposed to do, and I am surprised that the Minister seemed so reluctant to engage on the subject.

I am glad that the Minister is a little more willing to engage on how the self-employed are treated. He is right to recognise the widespread concern. The Northern Homeworking Project stated:

“We do not believe it is realistic to assume the self-employed earn at least the National Minimum Wage for the hours they work, especially when they are just getting established.”

Community Links, which gave evidence to the Committee last week and does a very good job in my constituency in the borough of Newham working with people who want to move into self-employment, stated:

“We feel it is wrong to assume the self-employed earn at least the National Minimum Wage for the hours they work, especially in the early days. Proposals in the White Paper have the potential to discourage low-earning self-employed people from declaring their work.”

Those organisations and many others will be heartened by the fact that the Minister has told us that the Government are not necessarily wedded to assuming that people earn at least the national minimum wage. The White Paper said that the Government would, so I recognise and welcome that indication of a shift in their

position. I hope that the Government will see that through and not make that assumption. If they did, as the Low Income Tax Reform Group pointed out last week, they would create a much worse regime for self-employment than the one that has been established in tax credits.

I do not intend to press the amendment, but it was important to debate the impact of the taper rate that has been chosen and what impact alternative rates might have. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Stephen Timms: I beg to move amendment 14, in clause 8, page 4, line 12, at end insert—

‘(aa) an amount in respect of prescribed unearned income calculated as in subsection 3(a).’.

The Chair: With this it will be convenient to discuss amendment 15, in clause 8, page 4, line 13, after ‘of’, insert ‘other’.

Stephen Timms: I want to read to the Committee a paragraph from the Institute for Fiscal Studies’ analysis of the Bill, which states:

“In tax credits, many types of unearned (non-investment) income are completely or partly disregarded in the current system. Some income, such as maintenance payments from former partners (which are particularly important for lone parents) currently does not count as income for the purpose of tax credits. This income will be considered as income under the system of Universal Credit, and therefore will reduce entitlement pound-for-pound.”

That is a very significant change in the way that maintenance payments are treated, and a very adverse change from the point of view of those who receive them.

The IFS continues:

“Other types, such as widows’ pensions and private pensions, count as income for both existing out-of-work benefits and Universal Credit. Such income will be tapered at 100% under Universal Credit instead of the 41% in Child Tax Credit for some workless households.”

Why are the Government attacking the incomes of widows? For every pound of income they receive in widow’s pension, under the Minister’s proposals, they will lose a pound of universal credit. I am genuinely puzzled about why the Government are doing that. They are doing the same thing with private pensions. Some weeks ago, I asked the Minister how much the Government expect to save as a result of attacking widows’ pensions in this way. In a written answer, he told me that the Government hope to save £160 million a year. The proposals for universal credit will take £160 million a year away from widows and a larger sum still—I think over £400 million according to his answer—will be taken from those who receive private pensions.

The amendment would allow us to define some income as protected by being treated as earnings. It does not specify which income streams would be affected, but at least there would be an opportunity to designate some of those streams of income, which currently are to be deducted from universal credit pound for pound, so that they can be treated more appropriately. Widows’ pensions are a good example of where that would be appropriate. I hope that the Minister will recognise that some kinds of unearned income ought to be treated, frankly, more respectfully than the current proposals do.

Jenny Willott: Does the right hon. Gentleman agree that the matter is covered in schedule 1(4)(3)(c), which says that the regulations may

“specify circumstances in which unearned income is to be treated as earned, or earned income as unearned”?

Does that not cover the issue that he is discussing?

Stephen Timms: I confess that I missed that point in the schedule. The hon. Lady may well be right. If the Minister could reassure us that the Government intend to invoke that provision in that way, it would be a great relief. What appears to be proposed, and the impact to which the Institute for Fiscal Studies draws attention, is seriously worrying. I hope that he can give us some reassurance.

Yvonne Fovargue (Makerfield) (Lab): I would like some further clarity from the Minister about two other items of income. The DWP website says that statutory sick pay may be treated as earned income, but some people who are self-employed, for example, claim employment and support allowance in the first six months of their illness. If they work for a small employer and know that they will not be able to go back to work, the employer might ask them to leave, or they may leave because they feel it is unfair on the employer, who needs the job filled. For that reason, they claim employment and support allowance, which must be treated as earnings. Otherwise, people who have suffered a catastrophic change in circumstances—they could have had a stroke, cancer or any long illness—will find that, pound for pound, they lose money.

The other possibility involves statutory maternity allowance. Statutory maternity pay is paid through earnings, and presumably—I hope that the Minister will clarify this—will be treated as earnings. Statutory maternity allowance is paid to people who move jobs, realise that they are pregnant and claim it instead of statutory maternity pay. Again, at a time when their circumstances are changing, it is vital that that money be treated as earnings and not as unearned income. I would like some clarity about whether those payments will also be included in the measures.

Kate Green: I join my hon. Friend the Member for Makerfield in raising questions about statutory maternity allowance, statutory sickness payments and employment and support allowance. As she said, we would like to know whether maternity allowance and statutory payments during parental leave will be treated as earned income under clause 8(3)(a).

Jenny Willott: I would be grateful if the hon. Lady would clarify something for me. I am sure that one of the briefing documents—I cannot remember which one amid the plethora of papers across my desk—said that unearned income would be treated in different ways, and that for some there would be a flat-rate disregard of the entire benefit rather than a reduction of the taper rate as earned income would be considered. Are she and her colleagues saying that they want statutory maternity allowance and statutory sick pay to be tapered, or would they like it to be treated as unearned income with a flat-rate disregard?

Kate Green: With respect, all that my hon. Friend and I are asking for at the moment is clarification. We are not advancing a particular position; we are simply unclear how those kinds of payment will be treated in future. What I really want to say is why it matters. As my hon. Friend suggests, those are moments of transition for families and households, when they are potentially financially vulnerable. For example, how we choose to treat the statutory maternity allowance is important. If that is handled wrongly, it might represent a significant loss of income for parents in the first year of their child’s life, at a time when other Government measures are resulting in substantial reductions in the incomes of such families. We know that some payments, such as statutory maternity pay, will be treated as earned income under the universal credit. Is there any reason why statutory maternity allowance would be treated differently? Does the Minister have any intentions for such payments and if so, what are they? We would appreciate clarification on that matter.

6.45 pm

My hon. Friend the Member for Makerfield has also mentioned people who may be unable to work through sickness, who may be receiving employment and support allowance rather than statutory sick pay. Under the current system, such people may be entitled to working tax credit on top of other benefit entitlements. That system cushions ill people against loss of wages at a time when they might otherwise see a bigger drop in their income. If that level of support is in some way diminished under the universal credit, we are concerned that such people will struggle to avoid debt and poverty. I would be grateful for the clarification that the Minister can offer us on those two points. In particular, will he reassure us that the measure will not leave people worse off than they might be under the current system?

Chris Grayling: Let me start by taking that point, about which there has, inevitably, been much speculation. We do not intend to leave people who receive such payments worse off. The Bill provides us with powers to set regulations that cover the different treatments of different types of unearned income. Such powers provide scope—as with earned income—to disregard some of that unearned income, to apply a taper to any income that is not disregarded, or to take some unearned income fully into account. That system is simply a replica of the current one. At present, payments such as statutory sick pay and statutory maternity pay are treated as earnings in the tax credit and housing benefit systems. As such, a taper is applied and benefit is withdrawn more slowly. For people who are receiving out-of-work benefits, such payments are taken fully into account and the award is reduced pound for pound. We have said that there may be some logic in treating payments such as those, which are paid by employers, in the same way as we do earnings with the universal credit, which would mean that they would be subject to the taper rate. That would be a step in the direction that hon. Members would like to take.

Different considerations apply to other forms of unearned income. The fact that an income is a replacement for earnings should not automatically result in its being treated in the same way as earnings. The best example of that is contribution-based jobseeker’s allowance, which

[Chris Grayling]

is a replacement for earnings. It will continue, in future, alongside the universal credit; it would make no sense to partially ignore it in assessing the universal credit.

People receive unearned income in many ways at present. We seek to put together a logical approach to avoid anomalies and over-generous treatment of particular types of income that would encourage benefit dependency. To take some of the specific points that have been raised, we have not said that maintenance payments will be taken into account under universal credit. There are no plans to change the current policy, which is a full disregard. There is no obligation under subsection (3)(b) to treat unearned income pound for pound, so there can be a taper. There is no stipulation that it has to be a full pound for pound disregard. My hon. Friend has referred to provisions in schedule 1, which, I hope, provide reassurance to hon. Members, too.

Stephen Timms: Will the Minister say a little more about how the Government intend to deal with widows' pensions?

Chris Grayling: I was about to discuss those. We have not yet decided how widows' pensions will be treated under universal credit. The clause allows us to disregard completely some income, to apply tapers and disregards, or to reduce universal credit pound for pound. At present, widows' benefits are taken into account with a small disregard of £10 a week for income support and £15 a week for housing benefit. They are fully taken into account for tax credits, albeit as a taper rate.

Although we are finalising the detail, we have no intention of leaving widows worse off as a result of the measure. We have no intention of suddenly transforming the situation for widows so that they are massively worse off. That applies to all the payments, and there is no great hidden agenda behind all of that to disadvantage groups that have specialist requirements within our benefits system. We are seeking to put in place a system that protects and supports people, and there are no hidden plans under the counter to do down individual groups.

I hope that those reassurances are sufficient to allow the right hon. Gentleman to withdraw his amendment for now. I assure him that we are trying to do the right thing for those people.

Stephen Timms: I am grateful to the Minister. What he has said on our points has been helpful. He has not given any firm commitments, but I understand why. This is perhaps one area where it would be useful to see the regulations in full when they become available. That may be an instance where there is a clear case for applying the affirmative procedure rather than the negative one. I am grateful for the Minister's reply, and I do not intend to press the amendment to a vote. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 8 ordered to stand part of the Bill.

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

6.51 pm

Adjourned till Thursday 31 March at Nine o'clock.