House of Commons

Work and Pensions Committee

Universal Credit implementation: meeting the needs of vulnerable claimants

Third Report of Session 2012–13

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Contents

Summary

Universal Credit is a new benefit for people of working age, whether they are in or out of work, which will replace six existing benefits. It is a key part of the Government's welfare reform programme and is being introduced with the objectives of simplifying the benefits system and increasing incentives to work. It will be implemented over a four-year period between 2013 and 2017.

The principles behind Universal Credit have widespread support, which we share. The Government has made significant progress in designing a system which will help ease the transition from benefits to work and it deserves to be congratulated for the progress it has made in this respect. We recognise that the new system will be effective for the majority of claimants but have concerns about the plans in place to take account of some of the more vulnerable benefit claimants.

It is acknowledged that some of the most vulnerable claimants struggle with the existing system and this inquiry has shown that serious concerns persist about how they will be supported with the transition to Universal Credit. The focus of this report is therefore the further steps the Government needs to take to ensure that Universal Credit works properly for all claimants, not just the majority.

The aim of moving to an online benefits claiming system and of increasing digital inclusion is welcome. However, the target for the vast majority of Universal Credit claims to be made and managed on line—"digital by default"—is ambitious and carries a risk that some vulnerable people will have difficulty in accessing their benefit entitlement because they do not know how to make a claim. DWP has not to date provided sufficient information about how this will be addressed. It now needs to set out: how people will know where to go to make a claim; what support they will be able to get; and what resources DWP plans to allocate to providing this support.

There will be a significant increase in demand for advice services during the four-year period of Universal Credit implementation, which will place a heavy burden on the advice sector. DWP needs to ensure that sufficient additional resources are available in the advice sector to support a successful transition to the new system.

Universal Credit entitlement will be assessed on a monthly basis, and paid in a single, monthly amount to each household. The Government believes that this arrangement will help to improve the financial literacy and financial inclusion of benefit claimants by mirroring paid employment. We support this principle but, while the change may be manageable for the majority of claimants, some vulnerable households, who already struggle to manage their finances, may not be able to manage a monthly, single household payment. The Government proposes to use an "exceptions" process to identify and provide support to claimants who may need it. There is a risk that some vulnerable claimants will be identified as such only after they have actually experienced problems.

The default arrangement under Universal Credit will be for rental costs to be paid to the benefit claimant who will then pay their landlord, rather than the landlord being paid directly. This represents a major change for many claimants, particularly for tenants in

social housing, and some may struggle to manage this new arrangement for rent payments. It is more likely to be effective if the Government allows time for a proper evaluation of its current pilots, which are testing the impact of direct rent payments, and to have a phased implementation after appropriate safety net arrangements for vulnerable people have been put in place.

The Government has clearly stated its commitment that Universal Credit will provide more generous support for disabled adults and disabled children than it does for people in similar circumstances who are not disabled. However, there are concerns that some disabled people will be worse off under Universal Credit because of the loss of additional disability payments which are available under the current system. Transitional arrangements will provide some protection but this will erode over time and when claimants' circumstances change. The Government should reconsider the system of disability additions under Universal Credit, particularly those affecting disabled children and severely disabled people, to ensure that it meets the commitment it has made to disabled claimants and that there is no diminution in their overall benefit package, which includes entitlement under Universal Credit.

The Government plans to calculate monthly Universal Credit payments by using up-to-date monthly information about claimants' employment earnings taken from HM Revenue & Customs' new Real Time Information (RTI) system for PAYE taxation. Ministers continue to be confident that RTI will be delivered on schedule, in time for full implementation of Universal Credit from October 2013. This timetable is very ambitious and leaves little opportunity for dealing with any problems which arise. DWP needs to clarify and publish details of the contingency arrangements which will be put in place for claimants to provide earnings information for calculation of Universal Credit if RTI is not available.

Universal Credit implementation is taking place at the same time as a number of other significant changes affecting benefit claimants, most notably the introduction of a system of local council tax support to replace Council Tax Benefit. This new support will sit outside Universal Credit; each local authority will be able to design its own scheme; and it is being introduced in combination with a 10% reduction in funding. Our key concerns about local council tax support are that: it contradicts the aim of simplifying the benefits system; it risks adding complexity to earnings incentives; and it has the potential seriously to undermine one of the objectives of Universal Credit which is to enable claimants to see clearly the financial benefits of taking up a job or working more hours.

The Government should reflect on the possible consequences of the scale of the proposed change for some of the most vulnerable people in society and, if those consequences cannot be adequately addressed, should consider modifying its implementation timescale accordingly. The Government has indicated that it expects to lay the Regulations to implement Universal Credit before Parliament in December. We hope it will take full account of the concerns raised in this report in finalising the detailed arrangements for delivering Universal Credit which it plans to set out in the Regulations.

1 Introduction

Background

1. The Government is in the midst of a major overhaul of the welfare benefits system. It believes that the current system is too complex and that the incentives to move into work are poor. The overall objective of its reform programme is to help people to move into and progress in work, while supporting the most vulnerable. The Government aims to make the system fairer, more affordable and better able to tackle poverty, worklessness and welfare dependency. It also aims to use the reforms to promote greater personal responsibility.[1]

2. The key legislation underpinning welfare reform is contained in the Welfare Reform Act 2012 which received Royal Assent in March. The Government stated then that the Act introduced a wide range of reforms to make the benefits and tax credits system fairer and simpler by creating the right incentives to get more people into work; protecting the most vulnerable in society; and delivering fairness to those claiming benefit and to the taxpayer.[2] One of the key policies within the Welfare Reform Act is the introduction of Universal Credit.

Key features of Universal Credit

3. Universal Credit is a new benefit for people of working age, whether they are in or out of work. It will replace Income-based Jobseeker's Allowance (JSA), Income-based Employment and Support Allowance (ESA); Income Support; Child Tax Credits; Working Tax Credits; and Housing Benefit. The Government says that Universal Credit will help claimants and their families to become more independent and will simplify the benefits system by bringing together a range of working-age benefits into a single streamlined payment.[3]

4. Universal Credit will be based on a standard allowance to which the following elements can be added for households which meet the criteria: limited capability for work/limited capability for work-related activity elements; child element; disabled child addition; childcare costs element; housing costs element; and carer element.

5. The Government plans to achieve its aim of ensuring work pays, and therefore increasing work incentives by using a single taper rate for deducting benefit as earnings increase and by putting in place a range of earnings disregards. Universal Credit is also intended to remove "cliff edges"; these are thresholds which exist in the current benefit and tax credit system that mean benefit is sometimes lost if a claimant works for more than a

1 For a summary of the Government's objectives for welfare reform, see for example : DWP ,*Universal Credit: Welfare that Works*, Cm 7957, November 2010; DWP Impact Assessment for Universal Credit, February 2011; and DWP, Explanatory Memorandum for the Social Security Advisory Committee on the Universal Credit Regulations 2012, June 2012

2 DWP Press release, 8 March 2012, " Iain Duncan Smith: Welfare reforms realised"

3 DWP, Explanatory Memorandum for the Social Security Advisory Committee on the Universal Credit Regulations 2012, June 2012, Introduction [Draft Universal Credit Regulations, Explanatory Memorandum]

certain number of hours or only becomes eligible for certain payments if they are able to work a certain number of hours (usually 16 hours a week).

6. At the same time as replacing six separate benefits with one new single benefit, the Government is planning a number of other changes within Universal Credit to encourage greater digital inclusion, financial inclusion and personal responsibility among benefit claimants. These changes will mean that, once someone is transferred to (or makes a new claim for) Universal Credit, they will at the same time be required to move to online claiming; they will receive a single monthly payment; and housing costs will be included in the single payment rather than being paid direct to landlords.

Implementation

7. Universal Credit is expected to be paid to an estimated eight million households when fully implemented. There will be three main implementation phases from October 2013 through to the end of 2017, at which time the legacy benefits of the current system will end.[4] The Government has decided on a limited early roll-out of Universal Credit, "the Pathfinder", which will begin in April 2013 with the objective of testing the system with local authorities, employers and claimants in a live environment. This Pathfinder will involve about 1,500 new benefit claimants per month in the North West of England.[5]

8. Implementation of Universal Credit will require the passage of several sets of detailed Regulations. Draft Regulations were published in June and the Social Security Advisory Committee (SSAC) carried out a consultation on them, at the request of the Government. DWP has indicated that it plans to lay the final version of the Regulations before Parliament in December.[6] The Regulations will be supported by detailed guidance for DWP decision-makers; the Government has now started consulting stakeholders about the content of this guidance.[7]

9. The Government has said that it will provide transitional protection to Universal Credit recipients whose circumstances remain the same, in order to ensure that they do not receive less benefit as a result of their move to Universal Credit. However, the cash protection amount will not be uprated over time along with the rest of Universal Credit, and the protection will stop if a claimant is reassessed following a significant change of circumstances (such as moving house where housing costs form part of the claim).[8]

Related policy and administrative changes

10. Universal Credit implementation is taking place in the context of other significant policy changes. Housing Benefit reforms announced by the Coalition Government in June 2010 have already been implemented or will come into effect soon; a benefit cap, limiting

4 DWP Press release, 1 November 2011, "Iain Duncan Smith sets out next steps for moving claimants onto Universal Credit"; see also Ev 90 paras 5-8

5 DWP Press Release, 24 May 2012, "Iain Duncan Smith: Early roll out of Universal Credit to go live in Manchester and Cheshire"

6 Qq 371-373

7 Draft Universal Credit Regulations, Explanatory Memorandum, para 245

8 Ev 90 and 101.

the total income from benefits which a household can receive, will be introduced in April 2013; Council Tax Benefit will be abolished and replaced with localised council tax support schemes in April 2013; the discretionary Social Fund will be localised from April 2013; Disability Living Allowance is being replaced by the Personal Independence Payment from April 2013; and the migration of Incapacity Benefit claimants to Employment and Support Allowance, which began in 2011, is continuing.

11. There is also a range of major administrative, IT and staffing changes associated with Universal Credit implementation. HM Revenue & Customs (HMRC) is developing a new system for collection of PAYE taxation, called Real Time Information (RTI). From October 2013, employers will be required to provide monthly information online about salaries and other payments made to their employees. DWP will use the information from RTI to calculate monthly Universal Credit entitlement.[9]

12. There will be significant staffing and organisational changes as a result of Universal Credit. At present HMRC staff are responsible for the administration of tax credits and local authority staff administer Housing Benefit, but all of these responsibilities will move to DWP under Universal Credit. Some HMRC staff are expected to be moved to DWP to work on the administration of Universal Credit. DWP has said that the future for local authority staff will not be clear until more is known about arrangements for the local delivery and support of Universal Credit, and the impact of other changes in local authority responsibilities (such as localised council tax support and the localised discretionary Social Fund).[10]

Our inquiry

13. We received a large volume of written evidence from a range of organisations and individuals including local authorities, housing providers, providers of welfare advice, professional bodies, academics and other interested organisations. We held three oral evidence sessions with local authority and union representatives, professional bodies, academics, advice agencies and Government Ministers. A full list of witnesses is set out at the end of the Report. We are grateful to all those who contributed to our inquiry.

14. **It was clear from the evidence received in our inquiry that there is widespread support for the principles of welfare reform, the general direction of policy development for Universal Credit, and the aim of strengthening incentives to work and facilitating the move from benefits to work. We share this support for the Government's aims for Universal Credit. It was equally clear, however, that there is considerable concern about the ambitious timetable for introducing Universal Credit; whether there will be sufficient time for the Government to learn from its pilots; and whether it is desirable or necessary to implement so many changes at once. Concerns raised in the evidence centred very much on the impact the changes might have on the most vulnerable claimants, such as some people with disabilities, homeless people and those who already struggle to manage their finances. This report therefore focuses on**

9 Ev 90

10 Ev 90

the nature of the risks for these vulnerable groups and on the Government's plans for protecting them.

15. The introduction of Universal Credit is a very complex process with wide-ranging implications. There are still many decisions to be made, including setting the levels of awards. It has not therefore been possible to explore all the elements of Universal Credit in a single inquiry and report. We expect this report to be the first in a series exploring different aspects of Universal Credit as the implementation progresses.

Structure of this report

16. The next chapter will look at how Universal Credit will be delivered. Chapter 3 examines the arrangements for claims and payments. In Chapter 4, we consider some of the main elements which will contribute to Universal Credit entitlement, including housing costs, childcare costs and payments to disabled people. The way earnings will be calculated and treated within Universal Credit is analysed in Chapter 5. Chapter 6 assesses the implications of related policy and administrative changes. In Chapter 7, we examine the implementation timetable and process.

2 Service delivery

Digital by default

17. The Government is designing Universal Credit with the expectation that claims will be made and managed through an online account, accessed via the internet—which it refers to as "digital by default". According to the draft Regulations, there will be no paper-based application form, but support will be provided via telephone (and face-to-face mediation in exceptional cases) to those who need help with using the online process.[11] In addition to achieving efficiency savings, the objectives of this approach are to improve the digital skills of claimants and thus help them become better prepared for work.[12]

18. DWP plans to provide telephone support to claimants, but the focus of this support will be to help people make an online claim rather than to provide an alternative channel.[13] It will also provide face-to-face support for claimants with complex circumstances or with particular needs but this is expected to be an interim measure. DWP explains that "claimants will be supported to use other channels as soon as it is practical to do so, and providers of the Universal Credit face-to-face channel must be advocates of the digital online service".[14]

19. DWP has estimated that initial take-up of online access will be 50% in 2013, will rise to 55% in 2015, and that it will be in line with the Cabinet Office target of 80% from 2017.[15] It is not clear whether this means that 50% of claims in 2013 will therefore be made via telephone, or whether some of these claims will be made online by the claimant with telephone or face-to-face assistance. It is also unclear whether claimants who apply by telephone will receive written confirmation of the details they have provided and of the amount awarded, and if not, how they will be able to check this information.

20. Witnesses expressed their support for the objective of moving towards an online claims system, but there was a widely held view that the target of online by default, as described in the draft Regulations, was over-optimistic. The Local Government Association (LGA) welcomed the aim of migrating customers to online systems "due to cost benefits and ease of access for customers" but its Chairman, Sir Merrick Cockell, pointed out that "it is going to be very difficult to get there".[16] The Council of Mortgage Lenders agreed that digital by default was "a worthy aspiration" but cautioned that it was likely to take some time to achieve.[17] Gavin Smart of the Chartered Institute of Housing told us that "the direction of

11 DWP, Explanatory Memorandum for the Social Security Advisory Committee on the Claims and Payment Regulations for Universal Credit, Personal Independence Payment, Jobseekers Allowance (Contributory) and Employment Support Allowance (Contributory, June 2012, pp 6-7 [Draft Claims and Payment Regulations, Explanatory Memorandum]

12 Ev 90

13 Ev 90

14 Ev 90

15 HC Deb, 26 June 2012, col 291w

16 Ev 111 and Q4

17 Ev w65 [Note: the format Ev wxx is used for references to written evidence published in Volume II on the Committee's website.]

travel is one that we would all support but the challenges are enormous”.[18]

Barriers to online access

21. Witnesses gave examples of barriers to online access which were likely to be experienced by claimants. The LGA pointed out that availability of high speed broadband varied; that the customer base for Universal Credit was the group amongst whom the internet access rate was lowest; and that applications for welfare support had a degree of complexity which excluded many from carrying them out online.[19] Organisations providing services and support to vulnerable people explained the particular difficulties. AdviceUK commented that “lack of access to computers and IT skills, coupled with disability, poor health, language and literacy barriers will cause the system to fail for many people”.[20] Community Links highlighted other potential barriers including mental health problems, learning disabilities, housebound people with physical disabilities, cultural and age barriers to change, and difficulties in providing the required documentation and information (for example people without a passport or other formal identification document and people in the process of determining their immigration status).[21]

22. Social housing providers pointed out that internet access tended to be lower than average amongst their clients and that a high proportion of them had language, learning or literacy difficulties which meant that they would be unable to make an online claim without “considerable assistance”.[22] Age UK indicated that internet use was lower amongst low-income people and that around a quarter of 55-64 year olds never used the internet.[23] The University of Bristol Personal Finance Research Centre highlighted that having access to a computer did not mean that a claimant had the necessary skills and confidence to complete a claim form or to maintain that claim afterwards; that there was widespread concern about making errors when completing the claim form, even among those willing to do so; and that 21% of the general population who had used the internet in the previous three months said that they lacked the skills to protect personal data.[24]

23. Recent Ofcom research data confirmed that many people still cannot access the internet. It found that 22% of the UK adult population (about 11 million people) did not use the internet at home and that these people risked being left behind in the drive for public services to be digital by default. The research showed that many people took time to become confident internet users; and that they needed continued support to overcome challenges and to interact effectively with online services. The report commented that “if a user’s journey is not supported adequately, the initial investment in training may go to waste” and that “the tactics used to reach people who are not yet online need to be rethought”. It concluded that “there is a significant risk that public policy currently

18 Q 4

19 Ev 111

20 Ev w1

21 Ev w46

22 See for example Ev w154; Ev w165

23 Ev w4

24 Ev w149

underestimates the task of ensuring that the vast majority of people are brought online, and are enabled to use the private and public sector services that are, or will be, online". [25]

24. Witnesses agreed that DWP would need to have a clear plan for helping claimants move to online claiming, and that this could not be achieved solely by removing other access channels. Gillian Guy, Chief Executive of Citizens Advice told us:

> At Citizens Advice, part of our ethos is that we try to help people take control of their lives. It is not about propping them up in terms of advice to keep coming back to us, to become dependent on us. It is really about giving them the wherewithal to take control. We fully understand that, but what we do not do at Citizens Advice is just close the door and say "You will get on much better without us, and you are going to have to sink or swim".[26]

Gavin Smart of the Chartered Institute of Housing called for DWP to make clear what additional support it would make available to get people online and the level of funding that would be allocated for this. He believed that, otherwise "this kind of big-bang approach is quite high risk".[27] Tony Wilson of the Centre for Economic and Social Inclusion (Inclusion) said that the Government needed to develop a better understanding of why some groups were less able to access the internet, the barriers they encountered, and ways to overcome those barriers. He believed that the Government was "moving too far and too fast" and that "it is not necessary to do this all by 2013 or to an arbitrary deadline."[28] The Institute of Revenues, Rating and Valuation commented that "bringing the majority of claimants round to the use of electronically managed claims may be more resource intensive that originally estimated".[29]

25. Several witnesses raised the issue of providing physical access to the internet for those without a computer at home. The London Advice Services Alliance acknowledged that the Government was looking at providing access in libraries and Jobcentres but pointed out the need to consider those people who could not get out to those locations.[30] Inclusion London agreed, saying that high street outlets might not be accessible for those with mobility difficulties. YMCA England pointed out that transport access could pose a barrier to access for people in small rural communities.[31] The University of Bristol Personal Finance Research Centre said that libraries and internet cafes often had restricted opening hours, usually made charges for internet use and did not usually have the aids needed by people with sight impairments or other disabilities. It explained that "both privacy and security are real issues for people using a public access computer to make their claim—and particularly if they are not experienced computer users".[32] Barnardo's suggested that a range of initiatives was required to guarantee easy and convenient access and that these

25 Ofcom Communications Panel, *Bridging the Gap: Sustaining online engagement*, May 2012

26 Q 183

27 Q 4

28 Q 81

29 Ev w96

30 Ev w97

31 Ev w18 and Ev w202

32 Ev w149

should include access from smartphones, given that this was the primary means of internet access for growing numbers of people.[33]

26. Pete Challis of UNISON pointed to the example of DWP's efforts to increase the number of online applications for JSA. Progress so far had been slower than expected, and the current proportion of online claims is much lower than the Universal Credit targets. He said that "DWP has been trying to do JSA online. Their 2011-12 Annual Report said that JSA online was 10.4% as at March 2011 and 19.6% as at March 2012. Their target was 80% by September 2013".[34]

27. DWP provided us with an update on the JSA online pilot. Take-up increased to 32.3% in August 2012 as a result of "providing greater direction and encouragement to those who can claim online" and "incentivising the use of online channels instead of telephony". The Department explained that Universal Credit was different from JSA online in that "it is a digital by default service with self-service in every channel and has been co-designed with both staff and claimants". DWP also advised us that claimants would be able to access Universal Credit from the web browser of their smartphone, from 2013 onwards. It added that "it is our intention to develop a Universal Credit app for smartphones; however it will not be in place for October 2013."[35]

28. The Secretary of State told us that 78% of benefit claimants used the internet and that at least 41% used online banking. He estimated that 30% of Universal Credit claimants would have no difficulty moving to online benefit claiming; that 33% were willing to change and would be able to do so with some support; and that the remaining 37% would require a greater level of support.[36] He said that Universal Credit would offer a "really good opportunity to get them online" and that to achieve 50% claiming Universal Credit online in October 2013 would not be an issue.[37] He also set out the advantages of claimants becoming computer literate in stopping them being excluded from jobs that require such literacy.[38]

29. **We welcome the Government's objectives of moving to an online benefits claiming system and of increasing digital inclusion, and we recognise the potential benefits for many claimants as well as the important cost-reduction advantages. We are, however, concerned that some vulnerable claimants will not have the internet access or skills to be able to use the system and so may be unable to obtain their benefit entitlement. Simply removing other channels for claiming benefits will not equip people with the necessary skills and capabilities to make the transition to online claiming.**

30. **For many people smartphones are now the preferred method of accessing the internet. We recommend that DWP gives priority to early development of an application to support Universal Credit claims from smartphones.**

33 Ev w12

34 Q 2

35 Ev 105

36 Q 201

37 Qq 204-205

38 Q 204

Telephone and face-to-face support

31. As well as developing a strategy for helping claimants make the transition to online claiming, witnesses also wanted greater clarity on access to alternative channels. Shelter called for further detail on what criteria claimants would have to meet in order to opt out of online claims.[39] Citizens Advice commented that DWP had suggested in advice sector meetings that face-to-face support would be available to those with pronounced need, such as those who already had contact with social services, but believed that “this is too narrow and excludes those who may have chosen not to engage with adult social care as well as others whose vulnerability is not defined by access to social care”.[40]

32. Witnesses also sought greater clarity on the support which would be available to those who could not claim online or had not yet made the transition; who would provide this support; and how it would be resourced. Citizens Advice said that “there will be a high number of people who will need permanent support in using or accessing online Government services, especially Universal Credit. That means factoring in support needs for the longer/permanent term as well as the transition period.”[41] The University of Bristol Personal Finance Research Centre commented that “It is very unlikely that the Government aspiration of 80% of Universal Credit claims being made online will be realised in the short term. Consequently, the Department should avoid conveying the message that applications can only be made online, and well-resourced and robust alternatives will need to be put in place.”[42] Gavin Smart of the Chartered Institute of Housing agreed: “there will always be a residual number of people who cannot operate an online claims system […] What that will mean is that a variety of different organisations [...] will have to provide those people with support and advice in order to navigate their way through the claims system”.[43]

33. Some social housing providers said that they would be able to provide internet access and support for their tenants but questioned whether they would be provided with funding for this. City West Housing Trust said that it could provide terminals for its customers in a supported and confidential environment, but that a key element of success for this approach would be funded training for its staff so that they could give the necessary support.[44] Notting Hill Housing believed that “the onus and costs will fall on social landlords and local government to ensure that our customers have good access to online services through office based and portable services”.[45]

34. UNISON argued that integrated and “people based” local delivery was necessary from the outset, in order to provide an accessible, quality service for Universal Credit claimants. Pete Challis of UNISON believed that that was the only way that the Government would be able “to guarantee the quality of service that the public have the right to expect”. Without

39 Ev w169

40 Ev 81

41 Ev 81

42 Ev w149

43 Q 12

44 Ev w39

45 Ev w146

this integrated model, which would need to include local authorities being able to access the DWP system, "we think there are going to be real problems."[46]

35. In April 2012, DWP and local authority organisations jointly issued a prospectus inviting local authorities to deliver pilots to help assess the need for face-to-face support. The pilot sites were announced in August and it is planned that they will run until September 2013. The issues being addressed in the pilots are: managing claimant interaction; assessing commitment to and barriers to work; budgeting support; online access; and general claimant support for complex needs.[47] DWP advised us that "the scope and scale of Universal Credit face-to-face provision, and the way it will be funded, is still to be determined and these pilots create an opportunity for councils to be at the forefront of shaping that role working with DWP and other partners." DWP offered to provide an update on some initial outcomes from the pilots in March 2013.[48]

36. The Chairman of the LGA told us he was pleased that DWP had taken up local government's offer of leading the face-to-face contact and online support for claimants but believed that, because of the short timescales, the complexity of the system, and the diverse needs of claimants, it would be "an enormous challenge".[49]

37. DWP provided some additional information on the support available for claimants. It plans to use 0800 free phone numbers for calls to claim benefit or request emergency payments, and 0845 numbers for other calls, but if anyone raised concern over the cost of a call, DWP would offer to call them back. DWP also plans to provide free claimant access phones in a large number of its Jobcentre Plus offices. [50]

38. The Secretary of State confirmed that the intention was also to provide internet access and trained support staff in Jobcentres to help people make online claims.[51] DWP subsequently provided further details: "Internet Access Devices (IAD) are currently being installed in all Jobcentres to support claimants in accessing the internet. By the end of October 2012 there will be a total of 2186 IADs across all of our 718 Jobcentre offices".[52]

39. When we asked about the costs of these services, the Secretary of State said that "rather than costing us any great money, the truth is it is actually going to save us an awful lot of money at the end of the day".[53] In a subsequent letter he made clear that the costs of installing these access devices were therefore being met outside the Universal Credit budget. The Secretary of State also said that the Department was looking at providing mobile support for people in outlying areas. [54]

46 Q 9

47 DWP Press release, 31 August 2012, "Freud announces successful Local Authority led Universal Credit pilots"

48 Ev 105

49 Q 4

50 Ev 105

51 Q 203

52 Ev 105

53 Q 208

54 Q 203

40. On the broader issue of the additional resources likely to be required in Jobcentres, DWP advised us that:

> The number of staff that will be needed to support claimants making claims online in JCP offices will increase over time as Universal Credit is rolled out incrementally. Based on current volumes we estimate that around the equivalent of 200 staff (£7 million per annum) by the end of the migration window–April 2013 to 2017, in both JCP offices and elsewhere. This is an area where of course we will be able to gain further experience during the course of the Pathfinder. [55]

41. In terms of identifying the people who would need help to make an online claim, Lord Freud said "what we are determined to do is to find the people who really need the support and provide that support for them, without encouraging everyone to require that level of support" and that "we are doing a major exercise currently to work out how to find those people and find out what support they need".[56]

42. **The systems design for Universal Credit, the service delivery plan and the final version of the Regulations must reflect the reality that some people will need face-to-face support when making a claim for Universal Credit. DWP has been unable to present us with any clear plans for how the Universal Credit service will be delivered to those people who cannot make an online claim. Nor is it clear what DWP's target of 50% online claims in 2013 actually means; if there is to be no paper form then all claims will have to be online and the target is presumably an indicator of how many claimants will need telephone or face-to-face support. We request that, in response to this Report, DWP provides an explanation of its online targets and a clear statement of its proposed service delivery arrangements, setting out how people will be informed about where to go to make a claim, what support they will be able to get there, and what resources DWP is investing in that support. These arrangements need to be in place before anyone is required to start claiming Universal Credit.**

Access for intermediaries

43. Witnesses also raised the issue of online access for intermediaries—welfare rights and other advocates who support people who need help with benefit claims. Home Group, a supported housing provider, wanted confirmation that their staff would be able to act as an agent and complete online claims on behalf of claimants who asked for this type of help.[57] Centrepoint called for DWP to clarify whether those providing support services would have the right to receive copies of benefit notification letters or to access young people's online accounts so that it could continue to advocate on their behalf and help support them to manage their tenancies. It highlighted that:

> [...] it would be illegal for us to use a young person's own sign in details without them present, and unfortunately, the chaotic nature of some young people's support needs mean that it is simply not possible to get them to manage their own claim. Third

55 Ev 105

56 Q 210

57 Ev w85

party notifications and advocacy access to online accounts will therefore be vital to aid services to support vulnerable clients.[58]

44. Citizens Advice also called on DWP to clarify the consent arrangements that would be required to enable them to get information about a client's claim on their behalf.[59] It pointed out that "it is not yet clear how intermediaries such as advisers in a bureau will be able to access the Universal Credit system on behalf of clients without first having to pass through the client's personal security information. It is vital that a secure access route is available for advisers from day one."[60]

45. In response to these concerns, Lord Freud told us that "we will have a system that allows trusted intermediaries to enter on behalf of those people and to help them do those things".[61] DWP later confirmed that a process for intermediaries was being built into the design of Universal Credit. In addition, Universal Credit would in the future have provision for online trusted information providers (such as accountants providing details of self-employed earnings) and information verifiers (who could verify or confirm information provided by claimants).[62]

46. **Some people rely on advisers and other advocates to help them to make and to resolve problems with their benefit claims. These intermediaries need to access relevant information about the claims in order to provide assistance and to seek explanations from DWP staff. It is not clear how intermediaries will be able to access this information when it is held online, unless the claimant is actually present and able to sign into their account. We request that, in response to this Report, DWP provides more information on how intermediaries will be able to access claimants' online information without compromising system security. We also request confirmation that DWP will continue to provide advice helplines for advisers to discuss cases.**

Independent advice and support

47. Witnesses pointed out that the introduction of Universal Credit, together with other welfare reforms, would have a significant impact on the advice sector, and that this would require proper planning and funding if the necessary level of support was to be provided to ensure that Universal Credit implementation was successful. Manchester City Council said that demand was increasing in Greater Manchester for "a range of benefits advice services connected to welfare reform particularly those delivered by agencies such as the Citizens Advice Bureau".[63] The Convention of Scottish Local Authorities commented that there was likely to be "substantial increased demand" for information and advice services in Scotland".[64] Community Housing Cymru said that there was a lack of clarity as to where independent advice on Universal Credit could be sought in Wales given that Citizens

58 Ev w24

59 Ev 81

60 Ev 81

61 Q 212

62 Ev 105

63 Ev w 124

64 Ev w62

Advice Bureaux were "already inundated" and the future of independent advice was uncertain because of the planned cuts to funding for advice services.[65] Citizens Advice told us that it was expecting "a massive increase in the demands for our service as 12 million people are moved on to the new Universal Credit system." The organisation is conducting a "fundamental review" of how it is going to cope with the increased demand and the need to retrain all its advisers.[66]

48. Alison Garnham, Chief Executive of the Child Poverty Action Group (CPAG) highlighted that "The problem at the moment is that we are seeing a reduction in advice services because cuts in local authority services and the removal of legal aid mean that two legs of funding for many voluntary sector advice agencies have disappeared so we are seeing a reduced capacity".[67]

49. Shelter believed that the period of transition to Universal Credit would be particularly resource-intensive for advice providers and that claimants would need access to benefits advice on a longer term basis. It pointed out that DWP had not made any funding available to "a) plug the gap that will be created by cuts to legal aid or b) provide for the mass training that will be necessary across the advice sector in order that they are equipped to deal with the changes under Universal Credit".[68] AdviceUK said that it was very concerned about the absence of liaison between DWP and the advice sector and "the lack of any advice strategy to accompany the implementation plans for Universal Credit".[69]

50. When we asked about funding for the advice sector, the Secretary of State said that the Government would provide it "if it is needed". Lord Freud said that "we will find some funding for the advisory sector".[70] However, he did not tell us how much this would be.

51. **There will be a significant increase in demand for advice services for claimants during the four-year period of Universal Credit implementation. We urge DWP to work with the advice sector to quantify and provide the extra resources necessary to fund retraining of advisers and the additional advice services which will be required to ensure a successful implementation of Universal Credit.**

65 Ev w43

66 Ev 81

67 Q 117

68 Ev w169

69 Ev w1

70 Qq 242-243

3 Claims and payments

Monthly assessment

52. Entitlement to Universal Credit will be calculated on a monthly basis. The assessment period will run from the effective date of the claim and each subsequent assessment period will begin on the same date of the month. DWP believes that this approach reflects monthly salaries and explained that "maintaining a consistent assessment period supports our simplicity agenda and also enables us to make consistent payments to claimants". Universal Credit will not normally be paid for a period of less than a month and assessment periods will always be one month in length. [71]

53. The Social Market Foundation commented that there had been little discussion about the potential implications of a rolling assessment and monthly payment in arrears and believed that there were likely to be significant unintended consequences. It explained that "Someone on a weekly wage who is subsequently made redundant could face over a month waiting for their revised Universal Credit payment. Many would have little alternative but to go into debt, with all the potential consequences that can entail".[72] CPAG pointed out that, if an entitlement ended during an assessment period, the payment for that entitlement would be lost for the entire month and commented that this was "arbitrary and will cause hardship".[73]

54. The Women's Budget Group highlighted that the principles of monthly assessment had not been discussed in detail during the parliamentary debates on the Welfare Reform Bill and that a clearer picture of the policy and its implications had only emerged on publication of the draft Universal Credit Regulations. It had now become clear that monthly assessment would mean that payments would only be made to claimants with a full month's entitlement (with no pro rata payment for shorter periods). The effect of changes of circumstances on entitlement would be calculated as if they had occurred at the beginning of the month, meaning that some claimants would lose out for the whole month (if the change meant a reduction in entitlement) but others would gain (if the change increased their entitlement). The Group acknowledged that adopting this whole month approach might avoid administrative complexity for the Government and some of the difficulties associated with under- and over-payments of tax credits. However, it was also likely to create difficulties for claimants who were being encouraged to set up monthly direct debits, but who would have difficulty in anticipating in advance the effect of changes of circumstances on their entitlement for the coming month. This was a particular issue for claimants on low incomes, who tended to have very frequent changes of circumstances.[74]

71 Draft Claims and Payment Regulations, Explanatory Memorandum, p 12

72 Ev w175

73 Ev 70

74 Ev 130

Monthly payments

55. Universal Credit will be paid on a calendar monthly basis in a single payment per household. DWP explains that this is "to reflect the fact that 70% of people in work are paid wages in this way".[75] DWP plans to provide budgeting support to help claimants manage the transition to monthly budgeting. It also plans to make provision for some payment exceptions, including making payments more frequently than monthly, making split payments and rent payments direct to the landlord. However, these exceptions are expected to be time-limited, with support being given to claimants to help them make the transition to the standard monthly payments. The qualifying criteria for payment exceptions will be included in formal guidance for decision-makers.[76]

56. The Centre for Social Justice, which was responsible for the work on "dynamic benefits" which paved the way for Universal Credit, explained the rationale for monthly payments:

> Our evidence for Dynamic Benefits found that difficulties in managing the transition from benefits to work included budgeting, and that this could act as a barrier to employment. Where households do struggle to manage a monthly budget, changing the frequency of payments gets to the root of the problem [...] the majority of Universal Credit recipient households will be in work and will be able to manage monthly payments without any problems."[77]

57. Many witnesses raised concerns about the proposed move to monthly payments. The University of Bristol Personal Finance Research Centre and the Women's Budget Group summarised some of the issues:

- monthly payments do not reflect the reality of work for many people, especially those on low incomes who are likely to be claiming Universal Credit;
- shifting to monthly budgeting would disrupt existing budgeting patterns;
- people choose to budget over shorter timeframes in order to keep tighter control of a low income and to retain the capacity to respond to unexpected events, not because they have poor financial management skills.

They pointed out that DWP's own research had shown that many would find monthly budgeting more difficult; and believed that the potential risks associated with moving to monthly payments outweighed any benefits.[78]

58. Advice providers also challenged the Government's assertion that monthly payments were the norm and argued that they did not reflect the world of work for people on low incomes. CPAG said that the move to monthly payments would hinder rather than help claimants to budget effectively and Citizens Advice highlighted the risk that claimants would fall into debt and hardship before they would be able to qualify for a payment

75 Ev 90

76 Ev 90

77 Ev w22

78 Ev w149 and Ev 127

exception.[79] Gillian Guy, Chief Executive of Citizens Advice, described the proposed change as “unrealistic” and “dangerous” because of the risk that people would get into severe debt, be unable to pay priority bills and then turn to pay-day loans and doorstep lenders.[80]

59. Local authority representatives believed that the change to monthly payments would be challenging for many claimants and would lead many into debt and budgeting difficulties.[81] Housing providers agreed that the change would make it more difficult for many to manage their budgets.[82] The Welsh Local Government Association’s view was that “there is a significant risk that pay-day loan companies and loan sharks will be the ones that benefit most from this policy”.[83] The Council of Mortgage Lenders also highlighted concerns about the potential for financial abuse of vulnerable people.[84]

60. Support organisations provided examples of particular issues for their clients. YMCA and Barnardo’s said that young, vulnerable adults, such as those recently leaving care, often had chaotic lives and very limited budgeting skills and would struggle to manage monthly budgeting.[85] St Mungo Community Housing Association pointed out that it was still common for many employees to be paid weekly, and said that monthly payments would “put the 45% of our clients who are socially vulnerable at a greater risk of being targeted and exploited financially”.[86]

61. Professor Mike Brewer of the IFS told us that monthly payments would probably be more costly for the taxpayer because of the support required by claimants to manage the change and the consequences for people who were unable to cope.[87] Tony Wilson of Inclusion argued that the risk of claimants running up debts and becoming less financially included could undermine the incentive to work. He recommended that the principle of a single monthly payment should be tested on a smaller scale before implementing it for all claimants.[88]

62. Witnesses also emphasised the need for budgeting support for claimants if the transition to monthly payments were to go ahead. Some housing providers expressed concern that this would be an additional demand on their services, for which no additional resources would be provided. Halton Housing Trust told us that housing providers had already taken steps to increase their own advice service resources at a time when local services were being cut or significantly reduced elsewhere. It believed that consideration should be given to the provision of ring-fenced resources for advice services to try to

79 Ev 70 p2 and Ev 81 p3

80 Q 130

81 See for example Ev 111; Ev w192; Ev w107

82 See for example Ev w130; Ev w65; Ev w39

83 Ev w192

84 Ev w65

85 Ev w202 and Ev w12

86 Ev w165

87 Q 79

88 Qq 73,104

ensure that they were not diminished at a time of such substantial change."[89] The Council of Mortgage Lenders suggested that "Government and others including the Money Advice Service should have a clear role in supporting and advising claimants, backed with appropriate financial commitment".[90] The Social Market Foundation conducted research on the likely impact of the Universal Credit payment arrangements on the budgeting of low-income families and suggested that DWP should develop a portal to help claimants budget effectively. This would allow them to make changes to the way their benefit money was transferred, before it arrived in their bank account.[91]

63. Lord Freud acknowledged that weekly or fortnightly wage payments still existed for some, but believed that the "vast majority want to go on monthly and we have to get them ready for that".[92] The Secretary of State told us that "75% of those in work are on monthly payments and that is a figure that is rising all the time". He believed that difficulty in adapting to monthly payments was currently a barrier to work for the longer-term unemployed.[93] He explained that the Universal Credit system had been designed for the majority, and that DWP could now start to identify people with particular vulnerabilities and deal with those who have particular problems: "the majority are dealt with, and now we can focus on the minority".[94] We asked DWP for clarification about the proposed arrangements for claimants who needed more frequent payments and were told that: "for those claimants who we identify as requiring more frequent payments once on Universal Credit, twice monthly payments of 50% of an award will be made seven days after the end of an assessment period and then about 15 days later."[95]

64. The Women's Budget Group highlighted the problems which might arise from using an "exceptions" service to decide which claimants were "vulnerable" and therefore eligible for more frequent payments and suggested that focusing on monthly payments as the norm might impede successful implementation: "Universal Credit risks getting bogged down in labour-intensive discretionary staff decisions on exceptions, as cases will be assessed on their individual merits with guidance, not regulations".[96] It recommended that all claimants be given the option of choosing more frequent payments. It also pointed out that the Government would need to clarify the administrative arrangements for more frequent payments, in particular whether the part payment would be in arrears (and so less likely to help claimants avoid hardship) or in advance (and so likely to be subject to adjustment at the end of the month when the relevant circumstances for that month had been confirmed).[97] The University of Bristol Personal Finance Research Centre agreed with this assessment."[98]

89 Ev w83

90 Ev w65

91 Social Market Foundation, *Sink or Swim? The impact of Universal Credit*, September 2012, p14

92 Q 241

93 Q 229

94 Qq 222, 234

95 Ev 105

96 Ev 127

97 Ev 130

98 Ev w149

65. **We understand the Government's preference for moving to a monthly payment system for Universal Credit, given that 70% of people in work are paid this way, and this amount is increasing. We accept that monthly payments of Universal Credit will make the transition to monthly salary easier for claimants and improve the position for claimants whose work status fluctuates. However, monthly payment is not the norm for many people on a low income and some claimants will return to weekly payments when they return to work. Budgeting weekly or fortnightly can be an effective way of managing a low income, and is not necessarily a sign of poor money management and monthly payment risks disrupting the existing budgeting methods of some households. Financial literacy training is likely to be expensive to provide and is unlikely to solve the difficulties of managing on a tight budget.**

66. **We are concerned that the Government's proposed exceptions process will be too slow in identifying people who may struggle to adapt to monthly payments and who may fall into debt or suffer further hardship. We recommend that DWP monitors the impact of monthly payments from the start of the Pathfinder in April 2013 and moves quickly to change its approach if this payment system appears to be creating difficulties for claimants.**

Single payment per household

67. The Universal Credit payment will normally be paid in full into one bank account per household (rather than each partner receiving their own benefit, as is often the case at present). DWP has stated that this single household payment "will enable low-income households to develop a greater responsibility for managing their household budget and support their transition into work".[99] The Explanatory Memorandum provided with the draft Regulations stated that "It is for [the family] to decide how to manage their finances in a way that best meets the needs of the family".[100] However, this aim of offering choice appears to be contradicted by establishing a default arrangement where the entire payment is made to one account, with split payments only available on an exceptional and time-limited basis.

68. The Centre for Social Justice explained that it had found that "claimants want consistency. A choice must be made over whether Universal Credit payments are made on a household basis or on an individual basis." It believed that the benefits of a single household payment outweigh the disadvantages, "which can be mitigated."[101]

69. Some witnesses questioned whether the proposed single payment per household would in practice support the Government's objectives of greater financial inclusion and readiness for work. The University of Bristol Personal Finance Research Centre highlighted that, while most potential recipients did not consider that single household payments would be a problem, research had also shown that it could be very problematic for a minority of claimants.[102]

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99 Ev 90

100 Draft Claims and Payment Regulations, Explanatory Memorandum, pp 11-13

101 Ev w22

102 Ev w149

70. The Social Market Foundation agreed; in its research "a small number of households expressed real concerns about how the benefit money would be distributed in their house if the money was no longer allocated to specific members of the household". It noted that the draft Regulations included a number of "welcome safeguards", but questioned the evidence base which would be required to invoke payment exceptions in cases of economic abuse or severe financial imbalance. SMF raised three key issues:

- a single payment could exacerbate the existing tendency for men to benefit at the expense of women from shared household income;
- when women receive benefits, this is likely to lead to higher expenditure on children and a single household payment could undermine this;
- a single payment could reduce the exposure of some people to financial engagement which could have negative consequences in the case of separation or bereavement.

It believed that there might be a case for claimants to have a choice of split payments if they felt this would help their budgeting or financial arrangements.[103]

71. The Women's Budget Group put forward similar arguments. It also pointed out that the issues relating to merging several benefit payments into one tended to be confused with those about whether the full entitlement should be paid to a single person or bank account, and said that "while combining benefits may be key to Universal Credit design, paying it into one account is not". It highlighted the potential gender imbalance of single payments, saying that "women are more likely to be economically dependent, and subject to financial and other abuse [...] The Government says that 'both members of the couple play an equal part in the claim' but this is not the case if only one gets the payment." It also believed that the system of "personalised individual conditionality" which would operate under Universal Credit "does not fit well with a system in which one partner receives no benefit."[104] CPAG also raised the question of how a couple would be treated if one partner did not accept the claimant commitment (see chapter 6).[105]

72. The Children's Society expressed concerns about the risk of the child element not being used for the benefit of children if it were not paid to the main carer. It also highlighted potential difficulties for couples in new relationships who would have to relinquish control over elements of their income for which they had previously been responsible, and believed that this would be difficult in the early stages of a new relationship, particularly if partners were responsible for children from a previous relationship. The Association of Directors of Adult Social Services (ADASS) agreed that a single payment would "disempower many women and remove safeguards that payments for children and housing costs are used for that purpose, where one partner in a couple acts irresponsibly".[106] Alison Garnham of

103 Ev w175

104 Ev 127

105 Q 127

106 Ev w7

CPAG told us that "What a lot of us are advocating is that couples should just be able to simply choose whether they have split payments or not."[107]

73. **A single household payment may not be suitable for every household claiming Universal Credit and we therefore see disadvantages in insisting that all households receive their benefit this way. There is potential for women to lose out under this arrangement and a risk that money intended for children or for rent will not be used for its intended purpose. We therefore recommend that DWP decision-makers have the discretion to allow payments to be split between two partners in a household, where circumstances make this necessary. This would not conflict with the Government's intention of calculating Universal Credit on a household basis.**

Direct payments of housing costs

74. At present, Housing Benefit is paid directly to social sector landlords, and local authorities have some discretion to make direct payments to landlords in the private rented sector. Under Universal Credit, the default position will be that all housing costs for both social and private sector tenants will be paid to the benefit claimant. The draft Regulations make provision for exceptions to be made for vulnerable people to continue to have their housing costs paid direct to their landlord, but DWP has not yet defined its interpretation of "vulnerable".[108] Witnesses' concerns focussed on the risks to individual claimants of managing their own rent payments and to landlords of a potentially higher level of rent arrears.

75. DWP is currently running a number of "demonstration projects" with local authority and housing association partnerships to test how well claimants renting social sector accommodation are able to manage housing benefit monthly payments and to consider the appropriate level of safeguards needed to help secure landlord income streams if tenants fall behind on their rent.[109]

76. Gavin Smart of the CIH told us that the early results were "encouraging in the sense that landlords are managing to make it work, but it requires a huge amount of additional effort." He highlighted concerns about levels of arrears and bad debts and the impact that might have on the ability of landlords to meet their financial obligations.[110] Shelter made similar points and argued that it was crucial for the Government to put systems in place to identify tenants who were vulnerable or in arrears so that direct payments to landlords were triggered quickly to avoid arrears building up.[111] The Council of Mortgage Lenders highlighted the potential combined impact on landlords of direct payments to tenants, the new social sector size criteria and the benefit cap. It believed this might "destabilise

107 Q 127

108 Draft Claims and Payment Regulations, Explanatory Memorandum, p 13

109 DWP Press release, 19 January 2012, "Councils and housing associations to test direct payments of housing cost support"

110 Q 43

111 Ev w169

landlords' income streams with consequential impacts on lender and investor confidence in the sector, particularly small to medium sized associations".[112]

77. The National Housing Federation recommended that DWP work closely with social landlords, local authorities and other agencies to work out how to identify and support people who were likely to need payment exceptions, rather than waiting for them to get into debt or crisis. It suggested using as a starting point the existing DWP guidance on vulnerability with respect to claimants of Local Housing Allowance in the private rented sector.[113]

78. The Convention of Scottish Local Authorities agreed that the change could destabilise the social housing sector and argued that a radical change of this kind needed to be phased in over a much longer timescale than currently planned.[114] Both the LGA and the Welsh LGA agreed that there was a real risk of rent arrears and increased collection costs as a consequence of direct monthly payment of Universal Credit.[115]

79. Providers of accommodation for vulnerable people, such as refuges and hostels, were concerned about the potential impact on clients. St Mungo's said that payment of the housing element to its clients could threaten vulnerable people's housing security and the financial viability of supported accommodation providers.[116] Refuge pointed out that refuges providing short-term emergency accommodation for women and children would become financially unsustainable because many women would already have left the refuge before they had received their housing payment in arrears, and that smaller organisations would have no means of retrieving those arrears.[117] [The wider issues about housing costs for supported exempt accommodation are discussed in Chapter 4.]

80. In previous reports on Local Housing Allowance and Housing Benefit reform for tenants in the private sector, this Committee and its predecessor acknowledged that the principle of paying benefits direct to claimants is an important one, but also highlighted that paying landlords directly might increase landlord confidence, enable lower rents to be negotiated and reduce the risk of arrears.[118]

81. The Secretary of State confirmed that payment exceptions would only be available on a temporary basis for people who met certain criteria:

> [...] we make a system for the majority; we then look at what the problems are for the minority. We said all along we need to look very carefully at the trigger points that actually mean someone's simply not coping and temporarily you may need to take

112 Ev w65

113 Ev w130

114 Ev w62

115 Ev w192 and Ev 111

116 Ev w165

117 Ev w159

118 Work and Pensions Committee, Fifth Report of Session 2009-10, *Local Housing Allowance,* HC 235; and Second Report *of* Session 2010-11, *Changes to Housing Benefit announced in the June 2010 Budget*, HC 469, paras 168-180

that in hand, but at the same time you want to get them back out of that and deal with their problems.[119]

82. DWP published some early findings from the demonstration projects at the end of October. This showed that 54% of tenants "said they were confident receiving their Housing Benefit payment directly to their own bank account". The DWP press release announcing the findings reported Lord Freud as saying that "These findings show most people on low incomes manage their money well and for most tenants the switch to direct payments under Universal Credit will be straightforward".[120]

83. **The proposal under Universal Credit to pay the costs of rent to the benefit claimant, rather than direct to the landlord, is a major change to the benefit regime for tenants in the social housing sector and for some in the private rented sector. We note the Government's view that this will contribute to claimants' financial capability. While we recognise that many existing social tenants and most tenants in the private rented sector already pay their own rents, we are concerned that some vulnerable claimants will be unable to manage making regular rent payments and may fall into arrears.**

84. **Initial findings from the pilots the Government is running to test the impact of direct payments of housing costs to claimants, the "housing demonstration projects", showed that just over half of tenants surveyed felt confident receiving their housing costs payment direct. Pilots receive additional time and attention both from landlords' staff and from local authorities' housing benefit staff in a way which would not be practical as larger numbers are brought into Universal Credit. Care must be taken in drawing conclusions from such small-scale pilots.**

85. **We believe that the Government's long-term aims for Universal Credit are more likely to be achieved if time is allowed for a proper evaluation of the housing demonstration pilots, followed by a phased implementation of direct payments after appropriate safety net arrangements for vulnerable people have been developed and tested. We therefore recommend that, during the initial phases of Universal Credit implementation from April 2013, claimants who currently have their housing costs paid to their landlord should have the option to continue with this arrangement.**

86. **We also recommend that the Government moves quickly to publish a clear definition of "vulnerable" groups within Universal Credit for whom it will not be appropriate to include housing costs in their benefit payment. It also needs to establish a robust process for proactively identifying claimants who are struggling to manage their housing costs so that they can be properly assisted before they fall into arrears and face eviction.**

119 Q 331

120 DWP press release, 30 October 2012 "Freud: Universal Credit switch will be simple for most – but we must prepare early"

Bank accounts

87. DWP expects to make the vast majority of Universal Credit payments into a nominated bank account using the BACS system.[121] Most claimant households will receive all of their monthly benefit entitlement, including their housing costs, in a single sum once a month. They will need to make arrangements to pay their rent and other bills regularly from this amount when previously their budget management might have relied on earmarking different sources of income to cover different living expenses.

88. DWP says that the Universal Credit payment arrangements are intended to help claimants develop greater financial literacy and prepare them for work and that they will "make it easier for households to take advantage of cheaper tariffs for essential costs such as utility bills. Increased financial responsibility will also allow households to improve their access to affordable credit".[122] DWP acknowledges that some claimants do not currently have access to a mainstream bank account. It explains that work is underway with a range of banking and financial product providers to make financial services more accessible to low-income households and that it is working with the British Bankers Association and providers of alternative financial products such as credit unions.[123]

89. Witnesses questioned whether benefit claimants would be able to access banking facilities, and whether the bank accounts available to them would provide appropriate facilities for people managing on a low income. Housing providers were particularly concerned about this, because of the number of social tenants who would be managing their own rent payments for the first time, and the desirability of them having direct debit facilities to do this.

90. The Council of Mortgage Lenders was concerned that there might be insufficient financial products available to support direct payments to claimants and that claimants might be unlikely to opt for banking products which could assist them in household budgeting and making rent payments direct to their landlords because of the associated charges.[124] Shelter said that the provision of bank accounts with direct debit facilities would be necessary to enable Universal Credit claimants to manage their rent payments and to support social tenants to handle their rent for the first time. It pointed out that Post Office accounts did not support direct debits, and recommended that DWP continue its work with the banking industry to develop products which would prevent the housing element of Universal Credit being diverted to cover overdraft fees and other direct debits.[125] The Halton Housing Trust suggested that DWP should support housing providers to encourage and promote bank accounts as the preferred mechanism for benefit payment.[126]

121 Draft Claims and Payments Regulations, Explanatory Memorandum, p 12. BACS is the Banking Automated Clearing Services, one of the main systems used for electronic processing of financial transactions.

122 Ev 90

123 Ev 90

124 Ev w65

125 Ev w169

126 Ev w83

Some housing associations have started providing a financial incentive to tenants to open credit union accounts in order to help protect their rent payments.[127]

91. The University of Bristol Personal Finance Research Centre estimated that about 1% of households do not have a bank account of any kind and 5% of households do not have a transaction account.[128] The Social Market Foundation estimated that 1.54 million people have no access to a transaction account and 0.95 million have only a basic bank account.[129] Barnardo's said that "everyone will need to have a bank account or Post Office account under the Universal Credit regime, yet despite progress, those on low incomes are much less likely to have a bank account than those with higher incomes". It added that the introduction of Universal Credit provided "the ideal opportunity to ensure that more people become financially included by making it easier for people to open bank accounts and by extending the facilities of the Post Office Account Card".[130]

92. Witnesses also pointed out that some people, particularly those on a low income, chose not to use a bank account because of the risk of incurring charges. The University of Bristol Personal Finance Research Centre believed that "most bank accounts are inappropriate for day-to-day money management by people on low incomes who need to keep close control over their finances". It highlighted a wider problem "of low-income people incurring penalty charges for failed direct debits which far outweigh any cost saving achieved by paying bills by direct debit".[131]

93. One option which has been discussed in the context of Universal Credit is the creation of "jam-jar accounts". These accounts automatically distribute income to different "pots" within a bank account—for rent, household bills etc—which helps to protect amounts intended to cover specific bills. They can also have facilities to send low balance alerts by text and to move savings into a bill-paying account in order to avoid penalty charges or failing to make a payment. They are intended to remove the risk that banks, if owed interest or overdraft charges, will automatically take money from claimants' accounts when they receive benefit payments, leaving them with insufficient funds to pay their bills.

94. The Social Market Foundation believed that financial products of this type were likely to be of significant help to those who are ready to engage with mainstream financial services but pointed out that a significant number of people chose not to use banking products to their full potential. Many people deliberately chose to deal in cash and "even assuming that a private market for such accounts is viable (and this seems doubtful), they will not help the whole claimant population, including many of the most vulnerable".[132] The Women's Budget Group agreed that some people operate in cash because they may not want bank accounts, "partly because of the risk of penalty charges and that banks may

127 Social Inclusion News, August 2012

128 Ev w149

129 Ev w175

130 Ev w12

131 Ev w149

132 Ev w175

not be keen on their business”. The Group highlighted that financial products such as jam-jar accounts “are unlikely to suit everyone—or be free”.[133]

95. A research report from Social Finance found that, whilst some jam-jar accounts were available, there was fairly limited take-up, because of issues of price and because providers lacked strong consumer recognition. However, many customers would be willing to pay for a jam-jar account if the fees were lower than those currently available. It suggested that “harnessing trusted consumer brands like the Post Office, third sector providers such as credit unions, retail payment networks like Paypoint and high street banks could help to improve the attractiveness and increase the take-up of jam-jar accounts”.[134] In June this year, the Government announced a further investment of £38 million for credit unions to help them build up their IT systems and infrastructure and so provide a viable alternative to pay-day loans, doorstep lenders and illegal loan sharks, for people on low incomes.[135]

96. Lord Freud announced during our oral evidence session that the Government was intending to subsidise the development of new budgeting accounts for Universal Credit claimants by up to £140 million, “to make sure that people have the ability to manage their finances and then get support to do so”. He added that “we are allowing people to take control of their lives and get rid of the poverty premium that we have imposed on people by giving them dribs and drabs of money, so they can never buy anything”.[136] The Secretary of State explained that the intention was to show people that there were better ways of managing their money.[137]

97. DWP is exploring the feasibility of making accounts with budgeting tools available to Universal Credit claimants. It states that the key requirement is to ensure claimants have access to a range of suitable financial products including “transaction accounts that will enable claimants to manage rent and bill payments more effectively on a monthly basis through automated transactions such as direct debits and standing orders”. It explained that it was looking for a range of diverse providers, including high street banks, mobile phone operators and pre-pay card providers, to express an interest in developing new financial products which would help ensure claimants’ essential bills were covered, build up their credit rating and break the cycle of financial exclusion.[138]

98. DWP estimates that up to 2.5 million Universal Credit claimants will need additional support to manage their money during the transitional period. It plans to subsidise the cost of financial products for an interim period of one year per claimant as they move on to Universal Credit. After this the claimant might choose to move to a mainstream financial product, or continue to use the budgeting account and pay for it themselves, or their landlord might recognise the value of the budgeting account and pay for it.[139]

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133 Ev 127

134 Social Finance, *A new approach to banking. Extending the use of Jam Jar Accounts in the UK*, April 2011, pp1-3

135 DWP Press release, 27 June 2012, “Freud announces further investment to secure future of credit unions”

136 Q 231

137 Q 241

138 Ev 105

139 DWP Press release, 17 September 2012, “Freud: New financial products to help Universal Credit claimants manage money”

99. **Some potential Universal Credit claimants do not have a bank account. Some witnesses were concerned that these claimants may have particular problems managing monthly payments and housing costs and may be vulnerable to exploitation, particularly from those loan companies and operators charging excessive interest rates. We welcome the Government's support for credit unions, but note that it is likely to be some time until credit unions have sufficient national coverage and capacity to offer a solution to everyone who needs it. We therefore welcome the Government's intention to ensure a range of financial product options are available to claimants. However, it is essential to ensure that any new products provide the same protection for customers as mainstream bank accounts. We note that DWP is proposing to subsidise the first year of customer charges under the proposed new scheme. The Government must assess during that year whether support for subsequent years will also be required, and plan accordingly.**

4 Universal Credit entitlement

100. Universal Credit will be made up of the following elements:

- **Standard allowance**—this is the basic component, awarded at different sums depending on which of these groups the claimant falls into:

— single claimants under age 25;

— single claimants aged 25 or over;

— couples where both members of the couple are under age 25; and

— couples where one or both members of the couple are aged 25 or over.

- **Limited capability for work element and limited capability for work and work-related activity element**—DWP says that these elements "aim to reflect the reasonable expectations of the extra costs faced by people with potentially longer durations on Universal Credit due to a health condition or disability". They mirror the payments received by Employment and Support Allowance (ESA) claimants who will currently be in either the Work-Related Activity Group or the Support Group. Claimants will continue to qualify for these additional payments on the basis of the Work Capability Assessment (WCA) which will determine whether a claimant is fit for work or qualifies for:

— the limited capability for work element; or

— the limited capability for work and work related activity element.

- **Child element**—payable where a claimant is responsible for a child or qualifying young person and that child or young person normally lives with them. Two rates are available: one rate for the first/only child and then a reduced rate for second and subsequent children.

- **Disabled child addition**—payable for a child who receives any rate of either component of DLA (mobility or care) apart from the highest rate of the care component.

- **Severely disabled child addition**—payable for a child who receives the highest rate of the care component of DLA or a child who is registered blind.

- **Housing element**—to cover similar types of payment liabilities as are covered by the current Housing Benefit and Support for Mortgage Interest schemes.

- **Carer element**—payable to an eligible adult in a household who provides care of at least 35 hours per week for a severely disabled person.

- **Childcare costs element**—to cover the costs of childcare for claimants in work.[140]

140 Draft Universal Credit Regulations, Explanatory Memorandum, pp 9-10

This chapter examines the elements about which witnesses raised significant concerns.

Payments to cover the additional costs of disability

101. The Government has stated that: "Universal Credit will provide more generous support for disabled adults and disabled children than it does for people in similar circumstances who are not disabled."[141] The Government also aims to use Universal Credit to simplify the existing range of disability-related premiums and additions. This section assesses the extent to which these two aims may conflict.

102. Witnesses were concerned that simplification might result in a reduction of benefit entitlement for many disabled people. The ADASS pointed out that disability premiums had always been a feature of means-tested support in recognition of the extra costs associated with disability such as aids and adaptations, extra heating, transport, special clothing and diets. It believed that the changes would "impact heavily on severely disabled claimants, in apparent contradiction of the Government's stated aim of protecting the most vulnerable".[142]

Disabled child addition

103. At present, families with a disabled child may be entitled to receive the disability element of child tax credit, currently worth £57 per week for each disabled child. Under Universal Credit, there will be a disabled child addition of £28 per week per household (the rate will be higher if the household is eligible for the severely disabled child addition—see above). DWP explained that the reason for the change was to align child and adult payments, so as to remove the "cliff edge" in the current system which means that benefit is suddenly lost at a certain income point, and so "make it easier for young people who go on to claim as disabled adults to have a planned transition into independence".[143] It estimated that around 170,000 children would be affected by this change but explained that some of these families could benefit from other Universal Credit changes, and others would receive transitional protection.[144] Some witnesses were not convinced by this reassurance.

104. The ADASS believed that this change would "adversely impact upon vulnerable families with a newly disabled or diagnosed child, with many families being worse off by up to £30 per week in comparison with those who claim before Universal Credit is implemented".[145] Contact a Family, a charity providing support to families with disabled children, argued that many families with disabled children already struggle financially and that "getting into debt to pay for food, heating, clothes and specialist equipment is the norm for most families with disabled children". It believed that the change was likely to

141 DWP, Universal Credit Policy Briefing Note 1, *Additions for longer durations on Universal Credit*, September 2011, para 1

142 Ev w7

143 Ev 90

144 Ev 90

145 Ev w7

lead to "significant financial hardship" for large numbers of families looking after a disabled child.[146]

105. Baroness Tanni Grey-Thompson has recently presented a report based on an internet survey and case studies of the impact of Universal Credit on the incomes of disabled people, with the support of Citizens Advice, the Children's Society and Disability Rights UK.[147] However, it should be noted that the report was contentious when released and the Government has refuted many of its findings.

106. The report noted that the impact of the reduction of support for disabled children under Universal Credit might be "extremely severe", particularly for families receiving the mid-rate care component of DLA. It accepted that some families with a disabled child might benefit overall under Universal Credit, but found that the two key groups likely to be adversely affected were: families where no-one could work because of their caring responsibilities; and working families relying on formal childcare, which was typically more expensive for disabled children. The research identified that many families were concerned about having to cut back on food or heating and about getting into debt and in some cases families expressed fears that they might no longer be able to afford their home or that their child might be taken into residential care. Many families with disabled children already faced higher childcare costs and difficulty finding jobs with suitable hours to fit in with caring responsibilities, which might reduce work incentives.

107. The report recommended that a third rate of disability addition be provided under Universal Credit for children on the mid-rate care component of DLA, asserting that this would preserve their current level of support. It also recommended that additional childcare support was provided for families with disabled children—80% of costs compared to the 70% available to other claimants—to reflect the typically higher charges for them and the typically longer period of a disabled child's life for which childcare was required.[148]

Severe Disability Premium

108. Another of the consequences of the simplification of disability premiums is that under Universal Credit there will be no equivalent to the Severe Disability Premium (SDP). This premium is currently worth £58 per week and is payable with Jobseekers Allowance (JSA) and Employment and Support Allowance (ESA) to help cover the additional costs of both living alone and having no carer.

109. The Motor Neurone Disease Association said that the abolition of SDP would have a serious negative impact on people with the disease who do not live with any other adult.[149] Baroness Tanni Grey-Thompson's report suggested that around 230,000 severely disabled people who do not have another adult to assist them are likely to face a cut in entitlement

146 Ev w58

147 Disability Rights UK, Citizens Advice and The Children's Society, *Holes in the safety net: the impact of Universal Credit on disabled people*, October 2012

148 ibid, pp 5-7

149 Ev w130

of between £28 and £58 a week.[150] Many respondents to the review faced a wide variety of extra costs as a result of their disability and of living alone or without an adult carer, and many were "very distressed and living very isolated lives". The report expressed concern about "the substantial pressure" on around 42,000 children of lone disabled parents to take on additional care responsibilities because the parent might no longer be able to afford to pay for the additional costs of care for themselves. The Government has argued that social care plans drawn up by local authorities should match the needs of those living alone, but the report pointed out that local authorities are unlikely to be able to cover the loss of support arising from abolition of the SDP unless they are given extra resources to do so.[151]

110. The review's preferred option was for the Severe Disability Premium to be retained in full, but if this were not possible, it recommended the introduction of a self-care addition to be paid to any disabled adult who does not have someone caring for them.[152]

Financial support for disabled people in work

111. At present, the disability element of Working Tax Credit, worth £54 per week, provides in-work support for people on low incomes. This recognises that many disabled people have a reduced earning potential and helps to meet the extra costs of working for those with a health condition or impairment. There is no equivalent addition under Universal Credit.

112. Baroness Grey-Thompson's report highlighted that, in general, disabled people earned less in work than non-disabled colleagues and that many faced additional costs as a result of working (such as needing to pay a cleaner because they had no energy after work; paying for more frequent repairs and replacements for aids such as wheelchairs and specialist clothing; and extra transport costs). It noted that some support was available under the Access to Work scheme, but this did not cover all types of costs, and was found to be poorly advertised and difficult to access.

113. The report argued that removing the additional financial support for working disabled people "risks being counterproductive, potentially preventing disabled people from being able to work" and recommended that extra support be provided under Universal Credit to working disabled people who are found fit for work but are at a significant disadvantage in the workplace as a result of an impairment or health condition.[153]

114. The Government has said that any savings from the reductions in payments available to disabled people under Universal Credit will be used to increase the means-tested addition for those in the ESA Support Group from the current £49 per week up to an eventual £80 per week.[154] Lord Freud reiterated that the amount of spending within the

150 Existing benefit claimants will receive transitional protection, but the value of this will be eroded over time, it will be withdrawn if the claimant's circumstances change and will not be available to people who first start to qualify for disability additions after the introduction of Universal Credit

151 Disability Rights UK, Citizens Advice and The Children's Society, *Holes in the safety net,* October 2012, pp 8-12

152 ibid, p 12

153 Ibid, pp 13-15

154 See Ev 90 and DWP, Universal Credit Policy Briefing Note 1, Additions for longer durations on Universal Credit, September 2011

disabled community would be maintained under Universal Credit, but how it was distributed would be adjusted: "we are reorganising disability payments to make them coherent, but we are not taking any money away, even without transitional protection".[155] He also highlighted the change under Universal Credit that would mean claimants with disabilities would be able to try to do some work without losing their benefit, which was not the case in the current system, and that fluctuating conditions could be accommodated by it being possible to adjust the benefit on a monthly basis to reflect time in and out of work.[156]

115. **The Government has clearly stated its intention that Universal Credit will provide more generous support for disabled adults and disabled children than it does for people in similar circumstances who are not disabled. We have not yet received sufficient evidence that the current plan for additional disability elements ensures this is the case. We are pleased to see that expenditure on disabled people as a whole will not be reduced. Our concern is how individual disabled claimants whose entitlement is reduced under Universal Credit will access substitute help. Transitional protection will mean that they do not lose in cash terms immediately but it will not provide a long-term solution because it diminishes over time and ends if their circumstances change. The Government needs to ensure that schemes are in place to support individuals to adjust. New claimants who may receive less under Universal Credit than they would have done under the existing system will also need help to live within the sum of all sources of support available in addition to Universal Credit. We recommend that the Government addresses concerns about the system of disability additions within and outside Universal Credit, particularly where these affect disabled children and severely disabled people, to meet its commitment to provide generous support to those particularly vulnerable groups of claimants and to ensure that there is no diminution in their overall benefit package which includes their entitlement under Universal Credit.**

Childcare costs

116. Universal Credit is designed to improve work incentives by making the potential financial gains of work clearer and reducing the risks associated with moves into employment.[157]A significant factor affecting the decision of parents returning to work is the cost of childcare, and the amount of support for childcare costs provided within their benefits.

117. Around 500,000 families currently receive the childcare element of Working Tax Credit. They can claim up to 70% of £175 per week for one child and £300 for two or more children (reduced from 80% in April 2011) if they work more than 16 hours. Under Universal Credit, support for childcare will be provided in the form of an additional childcare element, and eligibility will be extended to parents working fewer than 16 hours per week. The maximum amounts of support will remain the same, but will be converted into monthly limits of £760 for one child and £1,300 for two or more, with 70% of costs

155 Qq 356, 367

156 Q 359

157 Draft Universal Credit Regulations, Explanatory Memorandum, para 102

payable as at present. Claimants will be required to provide DWP with details of actual childcare costs on a monthly basis. The Government believes that the move to a monthly limit will provide "more flexibility for parents whose costs may fluctuate during the month, for example, during school holiday periods".[158]

118. DWP announced in October 2011 that an additional £300 million would be made available to cover the cost of extending childcare support within Universal Credit to parents who work fewer than 16 hours a week and estimated then that this would provide help for around 80,000 more families.[159] Professor Mike Brewer told us that the ending of the 16-hour work requirement "ironed out what is currently an anomalous situation". He believed that it was a very good move and that it would "definitely help work incentives and it may well help lone parents' progression".[160]

119. However other witnesses pointed out that the current rules allowing childcare costs to be disregarded for Housing Benefit and Council Tax Benefit mean that, in practice, many parents are currently able to recoup up to 95.5% of their childcare costs, and so a reduction to 70% support would have a significant impact on families' budgets.[161] The Children's Society welcomed the Government's decision to extend help with childcare costs to those working fewer than 16 hours per week, but pointed out that the restructuring of support under Universal Credit and the loss of the Housing Benefit and Council Tax Benefit disregards would substantially reduce the amount of childcare support available for some of the lowest income working families. It estimated that around 100,000 families would lose up to £4,000 per year in entitlement.[162]

120. The Centre for Social Justice believes that there are more fundamental problems with childcare provision that risk undermining the full potential of Universal Credit reforms. It explained that the current costs of childcare mean that it is often not economically worthwhile for parents to take jobs at the national minimum wage, "despite the fact that the UK has the second highest level of childcare subsidy in the OECD".[163] It cautions that the Government's efforts to make work pay for those on low incomes must not be "undermined by the high cost of childcare which can act as a major barrier to working". Its recent report made recommendations on how policy-makers could improve the affordability and flexibility of childcare and called for the Government "to lead a supply-side revolution in childcare provision".[164] The Resolution Foundation agrees that reducing the amount of disposable income spent on childcare is an important part of lowering the barriers to work for women, but argues that "given the mix of universal and means-tested support available for childcare, families at different points in the income distribution face very different childcare costs". It believes that "greater investment in today's means-tested system is unlikely to significantly improve work incentives" and that there is a strong case

158 DWP, Universal Credit Briefing Note 10, October 2011

159 DWP Press release, 7 October 2011, "More families will be paid childcare support than ever before"; see also HC Deb, 11 September 2012, 173W

160 Q 96

161 CPAG, *Universal Credit: What you need to know*, March 2012

162 The Children's Society, *The Parent Trap: Childcare cuts under Universal Credit*, September 2012, p 1

163 Centre for Social Justice, *Transforming Childcare, Changing Lives: Making sure that work pays*, October 2012, p 38

164 Ibid

for any new money to be invested in "highly affordable, non-means-tested support for childcare rather than investing more in today's complex system".[165] However, until sufficient extended and affordable childcare services are available, help with childcare costs through Universal Credit will remain extremely important.

121. **We welcome the extension of help with the costs of childcare for Universal Credit claimants so that it is available to parents who work fewer than 16 hours a week. However we note that the effective level of support will be less for some families who are currently benefiting from disregards under Housing Benefit and Council Tax Benefit. The costs of childcare are a key factor in achieving real financial benefits from returning to work and the Government will need to monitor the extent to which the childcare element of Universal Credit is effective in promoting work incentives, particularly in the context of the high cost of childcare in the UK.**

Housing costs

122. Universal Credit will include an amount for eligible housing costs to cover either rent (which can include certain service charges) or interest on mortgage payments. The draft Universal Credit Regulations set out the payment, liability and occupation conditions which must be met in order to qualify for a housing element payment within Universal Credit. DWP states that "The policy intent is to cover similar types of payment liabilities as are covered by the current Housing Benefit and support for mortgage interest schemes but, in line with the commitments in the Universal Credit White Paper, provide for simplification and consistency with the general aims of Universal Credit."[166]

Support for Mortgage Interest

123. Universal Credit claimants will be eligible for Support for Mortgage Interest (SMI), but there will be a "zero earnings rule", which means that they will not receive any help with mortgage costs if they are doing any paid work. DWP explained that:

> The Government believes that most owner occupiers should be aiming to move from short-term help with their housing costs into full time work to support their housing tenure or they should take other steps, such as selling their homes and downsizing, if they are unable to sustain their mortgages.

It also points out that the removal of SMI from those who take up some part-time work "will in part be compensated by the operation of the full disregard."[167]

124. Witnesses believed that the zero earnings rule could act as a disincentive to work. Tony Wilson of Inclusion described it as "a big issue" for the small but significant group of claimants with mortgage responsibilities who want to take up mini-jobs.[168] Fran Bennett of the Women's Budget Group agreed, and explained that this was most likely to affect lone

165 Resolution Foundation, *Counting the Costs of Childcare*, October 2012, p 1

166 Draft Universal Credit Regulations, Explanatory Memorandum, para 50

167 Draft Universal Credit Regulations, Explanatory Memorandum, paras 82-83

168 Q 86

parents who had been left with the family home.[169] Dr Peter Williams of the University of Cambridge and Professor Steve Wilcox of the University of York, described the proposals as “fundamentally flawed” and argued that the zero earnings rule had “the potential to further exacerbate the current decline in home ownership”.[170] They believed that the provisions went against the stated objective of the Universal Credit proposals to remove barriers to households moving into part-time work.[171]

125. The National Landlords Association expressed concern about the lack of apparent parity between households residing in different tenures. It also pointed out that tenants renting from a private landlord whose SMI was withdrawn were at risk of losing their home if the landlord faced repossession as a consequence of falling behind with mortgage interest payments.[172]

126. Lord Freud explained in oral evidence that the decision to restrict SMI had been made on the grounds of cost: “bluntly, our decision was that it was unaffordable to make it generic for everyone”. He added that a lone parent would only need to work for 10 hours a week at the national minimum wage in order to be better off after SMI had been withdrawn.[173]

127. **Removing Support for Mortgage Interest as soon as any hours of work are undertaken could discourage some claimants from entering part-time employment, especially single parents who have been able to remain in the family home after separation, and people making a phased return to work after illness. There is also the possibility of unintended higher spending consequences if claimants move to private rented accommodation, where assistance with housing costs will be given. We recommend that the Government looks again at this provision.**

Supported exempt accommodation

128. Exempt accommodation is a specific category of housing which is defined within the Housing Benefit Regulations. The relevant provisions are designed to ensure that Housing Benefit appropriately recognises the additional costs associated with providing specialist housing for certain vulnerable claimants, including disabled and homeless people. It means that the additional costs incurred by tenants in this type of accommodation are treated as eligible service charges for the purpose of calculating Housing Benefit entitlement. DWP has been carrying out a review of exempt accommodation costs, and in July 2011 it published a consultation paper on Housing Benefit reform for supported housing, with the aim of informing its future policy once Housing Benefit is replaced by Universal Credit.[174] It has not yet published a response to this consultation.

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169 Q 84

170 Ev w196

171 Ev w196

172 Ev w135

173 Q 340; see also Ev 105

174 DWP, *Housing Benefit Reform - Supported Housing: Proposals for Change in the Way Housing Benefit assists those living in supported housing within the social and voluntary sector with their rent,* Cm 8152, July 2011

129. The draft Universal Credit Regulations make no mention of exempt accommodation and, at the start of our inquiry, DWP had made no announcement about any replacement arrangements for it when benefit claimants move from Housing Benefit to Universal Credit. Witnesses were greatly concerned about this lack of information from DWP.

130. HomelessLink, the national umbrella organisation for over 500 homelessness charities in England, emphasised the problems caused by the delay in developing a resolution to how supported exempt accommodation would be included within Universal Credit: "providers need time to plan and develop solutions to ensure essential services remain viable".[175] In its response to DWP's 2011 consultation, HomelessLink had highlighted that the possible risks of getting a replacement system wrong included "an increase in street and other forms of homelessness, increased crime and resultant negative impacts on communities, increased use of acute health services, police resources and prisons." It explained that "there is simply no further capacity within homelessness services to have funding reduced and continue to provide services at current levels".[176] YMCA England called on the Government to "urgently clarify their position" and recommended that payments for supported housing be treated separately from Universal Credit.[177] The National Housing Federation supported the need for DWP to make its position clear as a matter of urgency.[178]

131. Witnesses also expressed concern about the likely consequences of paying housing costs direct to tenants in exempt accommodation, both in terms of risks to the financial viability of supported housing providers and the risks to vulnerable tenants of trying to manage their own rent payments. Gavin Smart of the Chartered Institute of Housing (CIH) told us: "Where you are dealing with people who may have very chaotic lifestyles, who may stay for very short periods of time, paying the benefit direct to those tenants in particular makes it extremely difficult for the landlord to be confident that they will receive the rent". He argued that people in supported housing "are vulnerable by definition", and that benefit should therefore be paid direct to landlords as the default position.[179] The CIH explained the complexities of the issue:

> Under the proposed UC regulations, landlords would need to provide evidence of vulnerability to secure direct payment. This is particularly problematic when dealing with residents who, by definition, have a chaotic lifestyle. Verification of vulnerability would be practically impossible to provide if the resident leaves after only a few days. Government has said it intends to apply verification on a risk basis, and we would welcome clarification of the intended approach.[180]

132. During our oral evidence session, Lord Freud announced that, in response to concerns raised during the consultation on the draft Regulations, housing costs for claimants living in supported exempt accommodation would be handled outside Universal

175 Ev w157

176 Ev w88

177 Ev w202

178 Ev w130

179 Q 47

180 Ev 66

Credit.[181] The Secretary of State subsequently confirmed this in writing and explained that the change was intended “to ensure that we continue to provide a flexible system to help meet the higher costs often associated with providing this type of accommodation”. He explained that this decision related to supported exempt accommodation as currently defined in DWP legislation. In the short term people would still be able to claim and receive Universal Credit but their housing costs would be provided separately. In the longer term, DWP would explore the feasibility of a localised funding system which “would not be focused on cutting costs, but would continue to question any costs which seemed unreasonably high”.[182]

133. The National Housing Federation welcomed DWP’s announcement. However, it said that big questions still remained about both the initial interim system and the longer term more localised system. It raised specific concerns about: the need to ensure that the real additional costs would be met; that supported and specialist housing would be excluded from the benefit cap and under-occupation penalties; the need to develop approaches for sheltered housing; and the need to ensure that there would be efficient administrative and support arrangements so that people could claim their housing costs easily.[183]

134. **We welcome the Government’s decision to exclude supported exempt accommodation from Universal Credit. However, DWP must urgently finalise and publish the details of the revised arrangements so that providers have the certainty they need to plan ahead and maintain their service provision. DWP must also clarify how the administration of supported exempt accommodation rental charges will operate within the Universal Credit system, and in particular, whether or not housing costs will be paid direct to landlords.**

181 Q 319

182 Ev 105

183 National Housing Federation, *Future of Housing Benefit for supported housing*, 25 September 2012

5 Calculation of income

Earnings disregards

135. One of the Government's key objectives for Universal Credit is that it should strengthen financial incentives to work. One of the main elements in achieving this is allowing Universal Credit claimants to keep more of their earnings and reducing their benefit more gradually as they move into work or increase their hours, using a system of earnings disregards and a single taper rate.

136. Disregards allow claimants to earn some money before it has any impact on the amount of benefit received under Universal Credit. The amount of these disregards will differ according to the needs of different types of households. There will also be a single taper at which benefit is reduced to take account of earnings above the disregard, instead of the range of different taper rates that currently exist in tax credits and the different working-age benefits. DWP argues that these features of Universal Credit will increase work incentives because it will be easier for claimants to work out whether they will be better off if they take up a job or increase their hours in work.[184]

137. DWP says that the system of earnings disregards under Universal Credit will be "simple". It published its initial proposals for the earnings disregard system in a briefing note in 2011, but put forward a different system in the draft Regulations published in June 2012. It explained that this was a simplification of its original policy and described the revised system as follows:

> Claimants in receipt of housing support are to have a higher award of Universal Credit than those with low or no housing costs. In order to address this and target resources fairly, we intend to allow those claimants with no support with their housing costs to keep more of their earnings. We intend to do this by setting higher earnings disregards for households with no housing costs compared to those with housing costs.[185]

The actual rates for the earnings disregard are still to be finalised.[186]

138. The Children's Society believed that this revised system was actually more complicated than the original one.[187] Gillian Guy of Citizens Advice highlighted that, whilst the revised approach might be simpler administratively, the impact for claimants was not necessarily desirable or simpler.[188] CPAG agreed that the proposed simplification would actually cause greater confusion, especially for tenants with low housing costs, for

184 Draft Universal Credit Regulations, Explanatory Memorandum, paras 130-131

185 Draft Universal Credit Regulations, Explanatory Memorandum, p 25

186 Q 277

187 Ev 74

188 Q 146

whom it would often be unclear whether they would be better off claiming for their housing costs or not.[189]

139. CPAG also pointed out that the lack of a disregard for second earners in a household would act as a disincentive for the second earner to return to work. It said that "this is particularly important in the context of reducing child poverty given that couple families where both partners work have a significantly reduced risk of living in poverty compared with those with only one earner".[190] A research report from the Resolution Foundation agreed with this: "whilst Universal Credit will in many ways be a welcome improvement to the welfare system, it will leave second earners—mostly women—with limited incentives to work."[191]

140. Lord Freud told us that DWP was "looking closely at the disregards again" to ensure that they acted as a financial incentive to work and that claimants could understand and act on them. The Secretary of State explained that a balance needed to be achieved between simplicity and the effect on financial incentives and that "the best effect on those entering work is the key to all of this".[192]

141. **A clear and easily comprehensible earnings disregard system is critical in order to ensure that benefit claimants can work out the financial advantages of returning to work or increasing their hours. We need more information to be clear that the simplified system set out in the draft Regulations achieves this, particularly for claimants with low housing costs for whom a choice of earnings disregard will exist. We are pleased that the Government is reassessing the proposed disregards.**

Employment earnings

142. The Government plans to calculate monthly Universal Credit payments by using information about claimants' employment earnings taken from data feeds from HMRC's new Real Time Information (RTI) system, which is being introduced to administer PAYE taxation. Under RTI, employers and pension providers will provide information about employee payments, tax, National Insurance and other deductions on a monthly basis, when or before payments are made, instead of waiting until after the end of the tax year.

143. The first RTI pilot was launched on schedule in April 2012, and since then progressively more employers have been added to the system. The RTI implementation schedule will require all employers to be on RTI by October 2013, in time for the first main phase of Universal Credit implementation. DWP reports that the quality of data in the pilot has been good.[193] However, the National Audit Office (NAO) has described the timetable for RTI as "challenging" and has said that improvements in data quality are "vital to its successful operation".[194]

189 Ev 70

190 Ev 70

191 Resolution Foundation, *Fairer by design: efficient tax reform for those on low to middle incomes*, July 2012, p 4

192 Q 282

193 Ev 90

194 National Audit Office, *HMRC Treasury and Resource Accounts 2011-12,* HC 46 July 2012, Summary, para 15

144. Concerns were raised by a number of our witnesses about the RTI timetable, the burdens on business and the planned interface with Universal Credit. The CBI questioned whether HMRC would be able to provide adequate support when RTI was rolled out to large numbers of employers. It highlighted that many employers were still unclear what information would be required and so were unable to prepare adequately for the new system. It called on the Government to clarify and streamline the information which employers would be required to submit; and pointed out that DWP would need to devise mechanisms for getting up-to-date data from those Universal Credit claimants not covered by PAYE and so for whom no RTI data would be available.[195]

145. The Institute of Chartered Accountants in England and Wales (ICAEW) pointed out that, in order to comply with RTI, the different payroll software packages used by businesses would need to be updated so that they could generate the required information feeds, and that "software houses have told us that HMRC have taken longer than expected to provide software specifications, which has delayed software writing". It also expected many smaller businesses to struggle to comply, especially those with limited computer literacy or limited broadband availability. ICAEW pointed out that HMRC had not been feeding data back to employers to help them correct their records during the initial "data cleansing" phase and believed that the Government had "seriously under-estimated the costs to employers and agents of implementing RTI". [196]

146. The Chartered Institute of Taxation (CIOT) believed that the requirement on employers to report information "on or before" the date of payment was an unrealistic obligation for many, particularly small, businesses where employees were paid on an ad hoc basis (such as shift workers paid late at night in a nightclub or harvest workers paid on piece work in a field).[197] The Low Incomes Tax Reform Group (LITRG) identified a number of "significant and worrying issues" relating to aspects of the proposed RTI feed. These included: a possible increase in 'bogus' self-employment when employers tried to avoid using RTI; "lumpy and irregular" patterns of Universal Credit entitlement for employees who were paid irregularly (which could be reduced by aligning the UC assessment period with the PAYE month); the position of claimants whose employers were digitally excluded; and the consequences of errors in RTI data when the system did not work or was inaccessible.[198] The LITRG also highlighted the need for HMRC and DWP to have a digital inclusion strategy: "penalising people who cannot use online channels for their inability to use them, which is the strategy practised by HMRC at present will not help them achieve the impossible. It simply creates hard cases and hard cases make bad law."[199]

147. Lord Freud told us that the RTI pilot was going "surprisingly smoothly", that around two million employees were now on the system and that "we are now on track to get a large number in by next April when we start our Pathfinders and to complete the transfer by

195 Ev w52

196 Ev w91

197 Ev w28

198 Ev w52

199 Ev w119

next October".[200] Early concern from software providers about the time available to develop the necessary software products had "basically gone away" and the telephone support team which had been put in place to support employers in the pilot "were actually pretty under-occupied, because it was relatively straightforward".[201] The Secretary of State said that the part of RTI which was required for Universal Credit was "already, essentially, on track".[202] Lord Freud explained that the bridge between RTI and Universal Credit was not live yet but it would be tested in September with dummy data, and that live data would be used during the Pathfinder trial in April.[203] He believed that the system was "pretty robust", but in the event of any system problems, the contingency plan was that Universal Credit claimants would enter their own monthly earnings information in the same way that self-employed claimants will be required to do (see below).[204]

148. **Ministers are confident that RTI will be delivered on schedule and in time to support the introduction of Universal Credit. The RTI implementation timetable is, however, very ambitious and leaves little opportunity for dealing with any problems which may arise. Tax, accountancy and business organisations have raised a range of specific concerns about the RTI programme with us. We did not receive satisfactory responses to our questions about these detailed issues in either our formal evidence session or our informal meetings with DWP and HMRC officials. It is therefore unclear whether these issues are under control or what measures will be put in place to deal with problems as they emerge during full implementation.**

149. **We request further information from DWP, in response to this Report, on its contingency plans for receiving information on earnings for the calculation of Universal Credit payments if the RTI link is not available. We understand that, if this happens when Universal Credit is introduced, claimants will be required to provide information on their monthly earnings using their online accounts. It is not clear how this will operate in practice or what arrangements will be used for those who cannot manage online accounts. We therefore request that the additional information from DWP includes details about how claimants can provide monthly updates on their earnings if they are unable to manage their claim online, and about the resource implications for DWP of verifying earnings information provided directly by claimants.**

Self-employed earnings

150. The Government set out its proposed rules for the reporting and treatment of self-employed earnings of Universal Credit claimants in the draft Regulations. These state that claimants with self-employed income will be required to report it to DWP on a monthly basis, on a simplified "cash income" basis, which is designed "to make it possible for claimants to report monthly without employing an accountant". Claimants will be required to report their income using a tool within their personal Universal Credit online account.

200 Q 250

201 Q 252

202 Q 251

203 Q 262

204 Q 263

Failure to provide this information could mean that their Universal Credit payments will be suspended or ultimately terminated. DWP states that self-employed claimants will be assumed to be earning a minimum amount, called the Minimum Income Floor (MIF) in order to “encourage and incentivise individuals to increase their earnings through developing their self-employment”. The original intention was that claimants would be entitled to one start-up period of one year, during which the MIF would not be applied.[205]

151. Witnesses raised a number of detailed concerns about the proposed treatment of self-employed earnings, which they believed would place an additional and onerous burden on claimants, and questioned the requirement for self-employed claimants to manage their Universal Credit claim online when data showed that some were still unable to use the internet.

152. The LITRG described the proposed treatment of the self-employed under Universal Credit as “a massively retrograde step from current practice under Working Tax Credit”. It believed that the proposals could deter claimants from starting and building up their own businesses. It provided worked examples which showed that, in certain circumstances, the MIF would mean that a self-employed claimant would receive less Universal Credit than an employed claimant on a higher income. [206] The ICAEW said that it was concerned that DWP was “forging ahead with cash accounting for Universal Credit when other parts of Government are (rightly) cautious about its adoption” and that the proposed rules “will hit those trying to move from welfare to work using self-employment as a stepping stone”.[207]

153. The CIOT pointed out that DWP would need to provide advice to claimants on how to navigate the new system and that “it should not be under-estimated how long it takes to set up such advice programmes with online information and tools, coupled with telephone and face-to-face support.”[208]

154. Lord Freud said that DWP had received a lot of feedback about the proposed treatment of self-employed earnings and that it would be “looking at this closely”. He pointed out that it was necessary to achieve a system that encouraged people both to be self-employed and “then to go on ratcheting up their efforts”. He announced during the evidence session that DWP had decided to allow each claimant to have a start-up period every five years, instead of the originally proposed once in a lifetime, in order to encourage people to be entrepreneurs.[209] He assured us that there would be “parity between the self-employed and the employed” in terms of benefit entitlement when on minimum earnings.[210]

155. **We welcome the Government’s efforts to ensure that the self-employed are incentivised to increase their earnings rather than rely on benefits, more closely reflecting the position for the employed or those seeking employment. We also**

205 Draft Universal Credit Regulations, Explanatory Memorandum, paras 159-177

206 Ev w119

207 Ev w91

208 Ev w28

209 Q 283

210 Q 288

welcome the decision to allow self-employed claimants one start-up period every five years instead of once in a lifetime, but are concerned that the Minimum Income Floor may act as a disincentive to entrepreneurship.

156. **While welcoming efforts to simplify the provision of information by the self-employed, we share the concerns of witnesses representing professional and taxation bodies that the use of an accounting method different to that used by HMRC may impose a significant and unnecessary burden on the self-employed and we recommend that DWP liaises with HMRC and the professional bodies as a matter of urgency to address these issues.**

Benefit cap

157. From April 2013 the Government will introduce a cap on the total amount of benefit that a working-age household can receive, and from October 2013 the cap will be applied to all new Universal Credit claims. DWP says that the cap is expected to be set at about £500 per week for couple and lone parent households and £350 for a single person. For Universal Credit these amounts will be converted to monthly figures to match Universal Credit's monthly assessment period. For couples and lone parent households the cap will be £2,016 per month; and for single adults it will be £1,517 per month. Once the cap is in place, any money over and above the threshold will be reduced from the housing costs element of Universal Credit.

158. There will be a number of exceptions to the cap, including:

- all benefit households where someone is in employment and has gross monthly earnings equivalent to 16 hours a week at the national minimum wage;
- War Widows and Widowers;
- Households in receipt of:

— Disability Living Allowance;

— Personal Independence Payment;

— Attendance Allowance;

— Industrial Injuries Benefits (and equivalent payments as part of a war disablement pension or the Armed Forces Compensation Scheme);

— the support component of Employment and Support Allowance; and the limited capability for work and work related activity element of Universal Credit.

The benefit cap will not be applied for nine months to those who have been in work continuously for the previous 12 months ("the grace period"). There will also be a discretionary payments system to help households adversely affected by the cap.[211]

211 Draft Universal Credit Regulations, Explanatory Memorandum, paras 159-177

159. Witnesses highlighted the likely impact of the benefit cap on certain types of households, for example those with higher than average rents, particularly households in London, and those in temporary accommodation. The LGA said that London councils were concerned that the introduction of the cap, together with reforms to the Local Housing Allowance, would lead to demographic migration from high cost areas of London and "lead to a breakdown of London's mixed communities and a concentration of poorer families in smaller parts of London".[212] The London Borough of Tower Hamlets said that it was likely that a number of families in the Government's Troubled Families programme would be affected by the benefit cap and potentially face displacement from their homes and the support services they need.[213]

160. The London Borough of Newham believed that the benefit cap would make housing "completely unaffordable" for many families in Newham and across London and that thousands of households would look to the council for help. There was already a severe lack of temporary accommodation in the borough, and it was also expensive: "temporary accommodation in Newham costs a minimum of £75 per night or £525 per week. A cut in benefits under the cap to £500 a week clearly makes this cost unaffordable. It is highly likely that tenants will be unable to pay and will fall into arrears."[214]

161. The Chartered Institute of Housing told us that, although discretionary payments could be used to help households adversely affected by the cap, most authorities would be reluctant to award these payments because of "the very high attrition rate it will place on the Discretionary Housing Payment budget". It said that this would initially lead to rent arrears and then homelessness, both of which were problems which local authorities were likely to have to deal with. It also believed that the cap would undermine arrangements which local authorities had made to secure temporary accommodation for homeless households in and around London because the leases were set at a higher price than mainstream rents and so were much more likely to be affected by the cap. It was "dismayed" that the benefit cap Regulations had been published before the review of the Housing Benefit subsidy rules for temporary accommodation had been completed.[215] CPAG recommended that people in temporary accommodation should be exempt from the cap because of the very high rents charged and because the usual options for reducing rent were not open to such claimants.[216]

162. The House of Lords Secondary Legislation Scrutiny Committee noted that, while reduction in benefits as a result of the cap could be offset from the Discretionary Housing Payments Scheme, the additional funding announced for people affected by the benefit cap could not be ring fenced.[217]

163. The Children's Society questioned the proposed arrangements for calculating the threshold income required to exempt households from the cap, pointing out that workers

212 Ev 111

213 Ev w111

214 Ev w109

215 Ev 66

216 Q 179

217 House of Lords Secondary Legislation Scrutiny Committee, Tenth Report of Session 2012-13, HL 565

on sick leave, or maternity leave, or working term-time only hours, would have difficulty meeting the required criteria, even though they were in regular work.[218]

164. The Secretary of State told us that Jobcentre Plus had identified all 56,000 or so families affected by the benefit cap and that it was already working with them.[219] He said that people "would not be put on the street" and confirmed that around £190 million was available for discretionary payments to make sure that the process was properly managed.[220] With regard to temporary accommodation and the benefit cap, DWP told us that it would be "producing a policy briefing note in due course to clarify the Department's position on treatment of temporary accommodation in Universal Credit".[221]

165. **While we support the principle behind the benefit cap, it is imperative that it does not affect the most vulnerable households in a way which makes it impossible for them to cope. We are therefore pleased that DWP has made additional funding available to help mitigate the impact of the cap on these families. We believe that the Government should consider, in particular, the impact on those in temporary accommodation which often attracts higher rental payments, and how the cap might be adjusted to take account of this. We request that DWP sets out in its response to this Report how it intends to monitor the impact of the cap. DWP also needs to clarify how the threshold for calculating income levels which would exempt households from the cap will take account of other statutory rights such as sick pay and maternity pay.**

218 Q 179

219 Q 305

220 Q 307

221 Ev 105

6 Implications of other policy changes

166. This chapter looks at a range of other policy changes taking place at the same time as the introduction of Universal Credit, which are likely to have an impact on how it is experienced by claimants and on its ability to achieve its objective of increasing incentives to work. The key policy changes are: the new conditionality regime; treatment of passported benefits; and the localisation of council tax support and the discretionary Social Fund.

Conditionality and sanctions

167. A new conditionality and sanctions regime for Jobseeker's Allowance was introduced on 22 October 2012, and one for the Employment and Support Allowance Work Related Activity Group will begin on 3 December 2012.[222] This new regime "substantially aligns the current system with the rules which will be in force when Universal Credit is introduced". In announcing the new regime, the Minister for Employment said that the new rules sent out a clear message to jobseekers that "choosing a life on benefits when you're able to work is not an option".[223]

The claimant commitment

168. JSA claimants currently have to sign a "claimant commitment", which sets out the terms of receiving the benefit, such as the minimum number of hours' work they must be looking for, and how many jobs a week they must apply for, tailored to the individual jobseeker. A similar requirement will be placed on Universal Credit claimants who will be required to agree to a claimant commitment setting out the actions that they will take to prepare or look for work. If a claimant refuses to accept their claimant commitment then they will not be entitled to Universal Credit, and as Universal Credit is a household benefit any claim from a partner in the household will also end.[224]

169. DWP explains that those claimants who are expected to search for work will have a personalised claimant commitment drawn up by their personal adviser during a face-to-face discussion. Claimants will be categorised under four types of work-related requirement, depending on their capability and circumstances, which will be recorded in the claimant commitment. The groups are:

- **No Work Related Requirements**—claimants who cannot reasonably be expected to work or prepare for work over a sustained period, or who are already earning all that could reasonably be expected above their conditionality threshold.
- **Work focussed interviews only**—claimants who are only expected to stay in touch with the labour market and begin thinking about a move into work, more work, or better paid work.

222 DWP, *Stakeholder Bulletin*, September 2012

223 DWP Press release, 22 October 2012 "Choosing a life on benefits is no longer an option"

224 Draft Universal Credit Regulations, Explanatory Memorandum, paras 210-222

- **Work Preparation**—claimants expected to prepare for a move into work, more work or better paid work by, for example, participating in the Work Programme, but not expected to look for work yet.

- **All work related requirements**—claimants expected to move into work, more work or better paid work.

Sanctions can be applied by the DWP to claimants who fail to undertake the agreed actions. [225]

170. Witnesses acknowledged that the new system was potentially a useful tool for both DWP and claimants to understand their responsibilities and requirements.[226] Inclusion recommended that the agreement be underpinned by a clear statement of the level of support which would be provided by DWP to claimants. It also recommended that the focus should be on effective job-search, and taking all reasonable steps to find work rather than on requiring a set number of hours of job-search a week.[227] Community Links believed that face-to-face support would be essential for claimants and that the success of the arrangement was solely reliant on the skills of the advisers delivering the service. It had concerns over the quality of customer service and how competent and confident all frontline advisers were in identifying people's needs, including their "hidden needs", and their barriers to finding work.[228] CPAG agreed that much would depend on the quality of support, and that investment in staff training would be required; it also pointed out that "some providers are struggling to deliver such a service with the current business model".[229]

171. Gillian Guy of Citizens Advice also emphasised the need for good support from DWP when a claimant's employment proved to be unsustainable. Citizens Advice Bureaux had examples of cases "where there was never a hope that someone could comply with the conditionality but it was not picked up early enough and they were penalised subsequently". She recommended that there should be an obligation on DWP to make sure that claimants had the ability to comply with the actions in their agreement.[230] Dr Sam Royston of the Children's Society argued that there was a risk that conditionality would lead to some claimants making bad decisions with regard to their employment "for example giving up a job where they have reasonable employment protections […] for another job perhaps with a couple more hours and slightly higher pay" but with poorer protection.[231] Notting Hill Housing was very concerned about the impact that one person refusing a commitment would have on the income for the whole household under the single household payment arrangements.[232]

225 Draft Universal Credit Regulations, Explanatory Memorandum, paras 210-213 and 217-220

226 Ev 81 and Ev 62

227 Ev 62

228 Ev w46

229 Ev 70

230 Q139

231 Q141

232 Ev w146

In-work conditionality

172. Under Universal Credit, conditionality will be applied for the first time to claimants in work. DWP stated that this was intended “to encourage and support those doing some work to progress and earn more in order to support themselves and their family”. It is not yet clear how it will operate in practice. DWP points out that “traditionally, the conditionality regime in the benefits system has aimed mostly to move people from no work into employment”. This focus will continue when Universal Credit is introduced but DWP has indicated that pilots will be carried out to explore options for increasing in-work conditionality in the future.[233]

173. Inclusion accepted that claimants with low earnings and high Universal Credit awards should be expected to take appropriate steps to increase their earnings, but expressed concern that the current proposals appeared to focus on encouraging claimants to look for other jobs which offered more hours, and said that “this could have the unintended consequence of actually making employers less likely to employ claimants of Universal Credit”.[234] Tony Wilson of Inclusion believed that “The focus should be around increasing earnings, which might be working another job or it might be taking on more hours or more responsibility.”[235] He also pointed out some of the difficulties of progression from part-time, flexible jobs to full employment:

> Although mini-jobs may be desirable, there is actually also a risk that we create a kind of second tier of work, which is mini-jobs where employers don’t have to pay pensions for example and where employment is subsidised to a much greater extent by the state […] we have to crack progression from short hours working to longer hours and higher-paid working in order for mini-jobs to be desirable.[236]

174. CPAG pointed out that DWP’s own research showed that in-work claimants were “both confused and dismayed at the prospect of being subject to a range of requirements until they reach a certain income”.[237] Barnardo’s recommended that in-work conditionality should be relatively “light-touch” with the ultimate aim of encouraging individual development and progression rather than just longer hours in an unskilled job.[238]

Sanctions

175. The new regime introduced on 22 October 2012 provides for three levels of sanctions:

- **Low**—for failure to undertake specific action required by a JCP adviser. Benefits withdrawn for one month for a first offence and three months for second and subsequent failures.

233 Ev 90,

234 Ev 62

235 Q 99

236 Q 98

237 Ev 70

238 Ev w12

- **Intermediate**—for failures to actively seek and be available for work. The sanction is disentitlement to benefit. If the claimant makes a new claim, no benefit is payable for one month for the first such failure and three months for second and subsequent failures.

- **High**—for failures to comply with the most important job-seeking requirements, including refusing a reasonable job offer or leaving employment voluntarily without good reason. The sanction is withdrawal of benefit for three months for a first failure, six months for a second failure within a year of the first, and three years for a third failure.[239]

176. Similar sanctions will be imposed on Universal Credit claimants who fail to meet conditionality requirements without a good reason. The Explanatory Memorandum to the draft Regulations indicates that the withdrawal of benefits will be applied to the standard allowance under Universal Credit, but not to the additional elements such as those for housing costs and disability: "Claimants subject to high, medium and low level sanctions will be sanctioned an amount equivalent to 100% of their standard allowance amount. Claimants subject to lowest level sanctions will be sanctioned an amount equivalent to 40% of their standard allowance". DWP staff will also be able to decide not to apply sanctions if the claimant can show "good reason" for failing to comply with the claimant commitment, such as ill health.[240]

177. DWP believes that sanctions "play a vital role in driving engagement with the labour market". It argues that the new sanctions system addresses problems with previous regimes in that it provides clarity about the consequences of non-compliance and will act as a clear and robust deterrent against non-compliance by imposing tougher sanctions.[241]

178. Inclusion agreed that sanctions were important in providing a warning to claimants that failing to undertake agreed actions would have consequences, but pointed out that the deterrent effect would only work if the consequences were understood, clearly communicated and fairly applied. It recommended that sanctions should be used as a last rather than a first resort.[242] Citizens Advice commented that, for sanctions to be fair and effective, claimants must understand what is required of them and they must be able to meet those requirements. It argued that there is little research evidence that sanctions are effective in moving claimants closer to the labour market; and that the effectiveness of a sanction may be limited by staying in place even when a claimant finds work. It believed that the current proposals would make it very hard to protect the most vulnerable from serious hardship.[243]

179. The YMCA told us that sanctions were likely to be a major problem for its clients and that, for the sanctions regime to work effectively, there needed to be a more effective support mechanism for getting young people into work.[244] The PCS union commented

239 DWP Press release, 22 October 2012 "Choosing a life on benefits is no longer an option"

240 Draft Universal Credit Regulations, Explanatory Memorandum, paras 254 and 287

241 Draft Universal Credit Regulations, Explanatory Memorandum, p 48

242 Ev 62

243 Ev 81

244 Ev w202

that sanctions had already been proven to be an ineffective way of helping to support people into work and that its members working as Jobcentre advisers had "seen their role changed from helping the unemployed into work to one where managers are pressuring staff into getting unemployed people off their books through use of ever more severe sanctions".[245] East Riding of Yorkshire Council said that sanctions could increase the number of applications for Discretionary Housing Payments or crisis loans from their local authority and also impact adversely on council tax and rent collection rates.[246] Notting Hill Housing Trust expressed concern that its work with troubled families could be undermined "by a cycle of sanctions and hardship payments".[247]

180. Barnardo's emphasised the importance of ensuring that sanctions did not operate in a counterproductive way which caused individuals to disengage and be lost completely from the system.[248] St Mungo's agreed, pointing out that evidence indicated that the longer the sanction, the more likely a claimant was to leave welfare unemployed or with a poorly paid job. It recommended that the application of sanctions should automatically trigger direct payment of the Universal Credit housing element to the landlord, in order to help prevent rent arrears and homelesseness.[249]

181. Alison Garnham of CPAG believed that the new regime would work best with high quality employment support and advice so that claimants were able to understand the conditionality regime, the reasons why sanctions were applied, the conditions under which hardship payments would be made and the way in which claimants could access benefits again after a sanction had been applied.[250]

182. **DWP has already imposed a more robust conditionality regime on JSA claimants and this will be continued through into Universal Credit. One element is the claimant commitment. This has the potential to help benefit claimants return to work, by making clear what job-search requirements they must fulfil. While we recognise that this is important, we also believe it is essential that DWP supports claimants in the job-search and that the support available to each claimant is clearly set out and actually provided.**

183. **The new regime also includes tougher sanctions with the ultimate penalty of benefit being withdrawn for three years. Sanctions are a necessary and important part of the benefits process, but there is little evidence that they strengthen work incentives on their own. The effectiveness of the new regime is likely to depend heavily on the quality of the face-to-face support provided by DWP through Jobcentre advisers. Sanctions must be used by DWP staff primarily as a deterrent and a last resort. Staff need to be properly trained to apply sanctions appropriately, and to explain clearly why they have been applied and what remedial action the claimant needs to take for benefit to be restored. We request that, in response to this Report, DWP explains how**

245 Ev w157

246 Ev w71

247 Ev w146

248 Ev w12

249 Ev w165

250 Q 138

Jobcentre staff will be equipped to implement the new conditionality and sanctions regime effectively.

Passported benefits

184. Claimants who are currently entitled to out-of-work means-tested benefits or tax credits can also be eligible for a wide range of other support, such as free school meals and free prescriptions. These are known as passported benefits. The number of passported benefits and the complexity of the entitlement conditions has increased over the years. Defining the entitlement criteria for these benefits is the responsibility of the many Government Departments and the Devolved Administrations who deliver them, but eligibility to specified DWP benefits usually acts as the "passport" to them. As this system is based on current means-tested benefits which will no longer exist after the introduction of Universal Credit, new passporting arrangements will have to be put in place.

185. In May 2011, DWP commissioned the Social Security Advisory Committee (SSAC) to undertake a review of passported benefits and to provide advice on possible approaches under Universal Credit. SSAC's independent review considered a number of key issues, including complexity, cost and work incentives under four headings: education; health; utilities; and access to justice. SSAC presented its final report to DWP in February 2012 and DWP published its response on 27 March. The SSAC report set out a detailed account of the array of passported benefits currently available, possible options for change and the "guiding principles" that should be followed in order to achieve the goals of simplification and making work pay. However, it did not make specific recommendations or offer formal advice to the Government.[251]

186. The Government Response acknowledged SSAC's views and stated that it was essential for organisations to target passported benefits to the people who most need this support "in order to deliver cost neutral solutions". However, it also noted that a significant amount of work had already been undertaken between Departments and the Devolved Administrations in preparation for the implementation of Universal Credit. It recognised that "some short term solutions may be required for the initial stages of Universal Credit in 2013" but in the longer term Universal Credit had scope to deliver passported benefits in a more automated and "seamless" way, while preserving their policy objectives and supporting work incentives.[252]

187. It seemed from the DWP submission to our inquiry that little progress had been made on finding solutions since the Government's Response to SSAC in March: the paper simply reiterated that DWP was working with the Government Departments responsible for passported benefits, and with the Devolved Administrations, to develop new eligibility criteria. It did however rule out the option of providing passported benefits to all Universal Credit claimants on the grounds that it is "simply unaffordable in the current economic climate".[253]

251 DWP, *Universal Credit: the impact on passported benefits: Report by the Social Security Advisory Committee and response by the Secretary of State for Work and Pensions*, Cm 8332, March 2012

252 Government Response to the SSAC report on passported benefits, Cm 8332, paras 8 and 108-109

253 Ev 90

188. Witnesses acknowledged that this was a complex issue, but argued that, if it were not properly resolved, it could compromise the aims of Universal Credit. The Institute for Fiscal Studies (IFS) commented that defining replacement eligibility criteria under Universal Credit was "another difficult issue that the Government has not really got to grips with yet and which could undermine a lot of the strengthening of work incentives that Universal Credit is going to bring about."[254] CPAG pointed out that passported benefits were a factor that parents valued most when thinking about incentives to work.[255]

189. The particular issue raised most frequently by witnesses was entitlement to free school meals. The Children's Society was particularly concerned about this entitlement because of the potentially substantial financial contribution it made to families' budgets (£1,100 per annum for a family with three eligible children), and the likelihood that any replacement system would create a considerable "cliff edge" drop in entitlement as soon as families' income levels went above the qualifying criteria.

190. Under the current system, the loss of free school meals at 16 hours work per week is partially offset by the gain in Working Tax Credit at the same threshold but, under Universal Credit, the loss of free school meals at a particular earnings limit could result in the loss of the full cash equivalent.[256] The Children's Society recommended extending free school meal entitlement to all Universal Credit claimants and estimated the cost of doing so at about £500 million a year (or £300 million a year if the earnings disregards were reduced by £5 per child for families with free school meals).[257] CPAG agreed that work incentives would be undermined if the withdrawal of passported benefits introduced new cliff edges into Universal Credit. It gave the example of a family of three children, who would need to earn more than £3,000 a year to offset the loss of free school meals. It pointed out that, whilst proposals for tapering passported benefits had been made, experts regarded these options as impracticable and it also called on DWP to extend free school meals to all Universal Credit claimants.[258]

191. Lord Freud told us that the Government's aim was to have a system in place for the national roll-out of Universal Credit next October but that the initial strategy on free school meals under Universal Credit would be to change the current system as little as possible. For the Pathfinder beginning in April 2013, because the numbers involved will be relatively small, "everyone on Universal Credit who has children in school would be able to get the passported benefit".[259] More generally, DWP would explore providing generic passporting services for other Government Departments "to allow them to have a very efficient and attractive way of providing passported benefits".[260]

192. One option for dealing with passported benefits under Universal Credit which is being considered is "cashing up"—giving claimants a cash equivalent as part of the

254 Q 90

255 Q 156

256 Ev 74

257 Q 155

258 Ev 70

259 Q 342

260 Q 344

Universal Credit payment, rather than a benefit in kind.[261] Pharmacy Voice, an organisation representing community pharmacy owners, acknowledged that the current entitlement rules were confusing and complex, and believed that they acted as an administrative burden on pharmacies and a barrier to health care for patients. However, it strongly opposed the option of converting free prescription entitlement to a cash benefit, on the grounds that some patients would then choose not to purchase the medicines prescribed for them. Its preference was for all Universal Credit claimants to be entitled to remission from prescription charges.[262] The College of Optometrists made a similar request for all Universal Credit claimants to be eligible for a NHS sight test and optical voucher and said there would be offsetting benefits from the early detection and resolution of eye conditions.[263]

193. In respect of the overall solution for dealing with passported benefits once Universal Credit is implemented, the Secretary of State made clear that the intention was for DWP to explain what would be possible under Universal Credit, and for other Government Departments to then decide on the eligibility criteria which they wished to apply for their particular benefits.[264] He made clear that decisions would be a matter for other Departments, and asserted that "it does not have a bearing on Universal Credit being successful or not".[265]

194. **The additional support currently available to many benefit claimants through passported benefits, particularly free school meals, is valued by families, and the entitlement criteria have a significant impact on decisions about returning to work or increasing working hours. Finding a way of administering passported benefits under Universal Credit is a complex issue, involving many other Government Departments and the Devolved Administrations. We accept that there are no easy answers but we believe it is essential for the Government to put fair and workable criteria in place to avoid adding complexity to Universal Credit and the risk of reducing incentives to work.**

195. **DWP has sought and been given detailed advice by the Social Security Advisory Committee about possible ways of establishing new eligibility criteria for passported benefits under Universal Credit. It now needs to make decisions. We welcome the Government's assurance that, initially, under the Pathfinder, all Universal Credit claimants will retain entitlement to free school meals. A clear indication is now needed on the arrangements it will put in place when Universal Credit is implemented nationally from October 2013, before moving on to consider long-term solutions. We regard "cashing up"—including a cash equivalent of passported benefits in the Universal Credit payment—as an interesting idea which might have the potential to avoid "cliff edges", the risk of a sudden drop in entitlement as soon as income levels rise above a certain level. DWP should now explore this in greater detail.**

261 Qq 344-349

262 Ev w153

263 Ev w202

264 Q 346

265 Q 347

Localisation of Council Tax support

196. As the IFS has highlighted, Council Tax Benefit has the most recipients of all current means-tested benefits.[266] However, it will not be included in Universal Credit. Instead it will be replaced from April 2013 by local council tax support schemes. Each local authority will be able to define the eligibility criteria for its own scheme within certain restrictions as set out in the Local Government Finance Act (which received Royal Assent on 31 October 2012). The change will be accompanied by overall central government funding for council tax support being reduced by 10%. Local authorities will be allowed to recoup some of this cut in central funding by discontinuing discounts for second homes and empty properties. However, they will be required to maintain discounts for all pensioners and those living on their own, regardless of income.[267]

197. This section deals with how the new scheme will be applied in England. The Scottish and Welsh governments have decided to operate centralised council tax rebates rather than devolving responsibility to individual local authorities, although they have made different decisions about how to deal with the funding cut. In Wales, council tax support will be reduced by 10%, though it is not yet clear how this will be applied. In Scotland, the government has decided to maintain existing levels of support and to make savings elsewhere. Northern Ireland has a different system of local taxation, based on domestic rates, with an associated system of rebates, similar to Council Tax Benefit. Funding for this system will also be cut by 10%.[268]

198. Witnesses pointed out that localisation of council tax support could potentially undermine the benefits of Universal Credit by reintroducing complexity into the benefits system and by weakening work incentives. The IFS believed that keeping council tax support separate from Universal Credit and allowing it to vary across the country "severely undermines" the simplification of the benefits system and many of the potential advantages of Universal Credit. It also feared that the separate means tests for local council tax support and Universal Credit could reintroduce some of the extremely weak work incentives that Universal Credit was supposed to eliminate.[269]

199. Inclusion agreed with this analysis.[270] Tony Wilson of Inclusion told us that: "the bigger risk with council tax benefit is less about necessarily the precise amount better or worse off people may be with the localised scheme; it is the sheer complexity."[271] Gillian Guy of Citizens Advice described localisation of council tax support as "an example of where Departments are doing their own thing on certain areas, which together have a cumulative impact on families" and was unsure whether "the intended or unintended consequences of that have been fully worked through."[272] The LGA highlighted that all

266 Institute for Fiscal Studies, *Universal Credit: A Preliminary Analysis of its Impact on Incomes and Work Incentives*, January 2011, p 40

267 Department for Communities and Local Government, *Localising support for council tax - explanatory Note on Draft Regulations,* July 2012

268 Institute for Fiscal Studies, *Reforming Council Tax Benefit*, May 2012, pp 6 and 11

269 ibid, pp 8-9

270 Ev 62

271 Q 87

272 Q 175

councils were concerned about "the compressed timescale for devising, consulting and delivering plans" for council tax support schemes.[273]

200. Witnesses were also concerned that the Government's requirement that local authorities maintain protection for certain groups such as pensioners would mean that others, particularly low-income working families, would be disproportionately affected. UNISON had conducted analysis which indicated that there would be a greater impact on working households, particularly in areas with a high proportion of elderly residents. In some areas, a 10% funding reduction would translate in practice to a 20% or 25% reduction for working-age claimants, after allowing for pensioners and other protected groups.[274] UNISON also highlighted that councils were assuming significantly reduced collection rates from people on low incomes who had not previously had to pay council tax.[275] The Chartered Institute of Housing pointed out that it was very difficult to assess the detailed impact at this stage, but that there was a risk that households on incomes below about £290 a week would be worse off under the new system than under the old system.[276]

201. The LGA Chairman, Sir Merrick Cockell, called for local authorities to be given greater flexibility in applying the cuts, including the option of extending them to pensioners when this would be the fairest option within a community. He told us that "the more you spread the burden of a reduction in council tax benefit, the smaller the impact on anyone" and argued that the burden should be shared by "everyone in the community".[277] Sir Merrick believed that the current approach "has the capacity to go pretty badly wrong with a lot of very difficult human cases". He acknowledged that there was not "a painless way" to implement the changes but believed that "a sensible way through it" would be for arrangements to be determined at a local level, depending on local circumstances. He argued that: "The Government's decision to protect particular groups means that the pressure is just on, frankly, those who can least afford it, and particularly those who are just hanging on in work".[278]

202. The IFS pointed out in its detailed study of the council tax benefit reforms that, when Universal Credit is introduced, English local authorities and the Scottish and Welsh governments will need to decide whether or not to include it in income for the purpose of means-testing council tax support. Since Universal Credit did not exist when Council Tax Benefit was in place, there was no direct precedent to draw on. Whilst some of the benefits that Universal Credit is replacing currently count as income for Council Tax Benefit calculation (such as tax credits), other do not (such as Income Support, income-based JSA, income-based ESA and Housing Benefit). The options for the treatment of Universal Credit income chosen by local authorities will have a direct effect on the overall amount of

273 Ev 111

274 Ev 115

275 Ev 115

276 Q 25

277 Qq 30-31

278 Qq 24-26, 41

support claimants receive, and the withdrawal rate of benefits which will be applied when they take on more work.[279]

203. The New Policy Institute has published an analysis of the likely consequences of localised support schemes. This found that "strikingly, councils have made few references to Universal Credit in their proposed schemes" which may lead to schemes having to be changed again "meaning more uncertainty and anxiety for claimants".[280] CPAG has highlighted that the draft default council tax support scheme for English local authorities will take Universal Credit into account as income and said that this "would produce a result in which at least some on very low incomes were having to pay towards council tax".[281]

204. The New Policy Institute report noted that "there is likely to be an abundance" of different council tax support schemes. It identified nine different options being considered by different councils.[282] Most councils were proposing to implement a mixture of several options, but by far the most significant is the option under which all working-age adults, however low their income, would have to pay a minimum amount of council tax, typically 20% of what would be the normal amount for their home. It believed that the range of difference might reduce over the next few months and that "some standardisation could only be welcome".[283]

205. When we put these concerns to the Secretary of State, he told us that the Government was "working very hard with local government to make sure that the system they set and the processes they undertake" did not conflict with work incentives under Universal Credit.[284] He explained that local authorities would have considerable freedom in deciding how to achieve a 10% reduction in support, but reiterated that the Government was committed to protecting pensioners under the new schemes.[285] On 16 October, the Department for Communities and Local Government announced that an additional £100 million of funding would be provided for councils "to help support them in developing well-designed council tax support schemes and maintain positive incentives to work". The money will be available as grants to councils who design schemes which meet specific criteria set out by DCLG.[286]

206. **We believe that the Government's decision to localise council tax support under a proliferation of local schemes, rather than including it within Universal Credit, will work against its objective of simplification of the benefits system. It will introduce local variation, add additional complexity to earnings incentives and has the potential**

279 Institute for Fiscal Studies, *Reforming Council Tax Benefit*, May 2012, p 89

280 New Policy Institute, *Localising council tax support: A briefing note on local authorities' plans*, September 2012

281 CPAG, Welfare Rights Bulletin, August 2012, p 2

282 These were introducing a minimum payment for all adults whatever their income; removing the second person rebate; lowering the savings limit; capping council tax support in higher council tax bands; counting maintenance and/or tax credits as income; increasing the income taper; introducing a minimum level of support; absorbing the cut ie making no change; and changing council tax exemptions.

283 New Policy Institute, *Localising council tax support: A briefing note on local authorities' plans*, September 2012

284 Q 299

285 Ev 105

286 HC Deb 16 October 2012, cols 13-14WS

seriously to undermine the objectives of Universal Credit in terms of enabling claimants to see clearly the financial benefits of taking up a job or working more hours.

207. **The decision to reduce central government funding to local authorities for council tax support by 10%, but at the same time to protect pensioners, means that the burden is likely to fall on low-income working-age households, many of whom will be asked to pay council tax for the first time. The recently announced additional short-term funding for local authorities is welcome and may help to reduce the impact on some low-income families. However, we believe that it is essential that DWP fully understands the interaction between the changes to council tax support and the introduction of Universal Credit, particularly for low-income households, and that it begins monitoring the impact of the new council tax support arrangements as soon as they are implemented from April 2013. We request that DWP sets out its plans for this monitoring work, including the timetable, in response to this Report.**

Localisation of the Social Fund

208. Under the Welfare Reform Act, the discretionary Social Fund will be abolished in April 2013 and community care grants and crisis loans will no longer be available. Instead, in England, a new system of local welfare assistance will be introduced, to be administered and provided by local authorities. In Scotland and Wales the Devolved Administrations will decide the most appropriate arrangements for assistance. The Government has explained that the reasons for the change include the increasing cost of crisis loans and the need to focus discretionary payments on the most vulnerable people. The Government also believes that a discretionary system is likely to be more effective if it is administered locally and "linked to other support services" rather than being centrally administered.[287]

209. Witnesses pointed out that localisation of the discretionary Social Fund would potentially add further complexity to the benefits system, and more local variation in the levels of support available. Dr Sam Royston of the Children's Society believed that it would be harder for claimants to get cash grants and loans.[288] Tony Wilson of Inclusion agreed: "there are significant concerns that the level of funding to local authorities will not be sufficient to meet the costs of establishing new schemes, that social services functions will not be best placed to deliver local schemes, and that the lack of ring-fencing could lead to further reduced support."[289]

210. CPAG pointed out that localisation was taking place in the context of significant cuts to the available budget and believed that this would "highly constrain the level of support that can be provided".[290] The Children's Society recommended that local authority funding for replacement schemes be ring-fenced to ensure that it continues to be used to assist

287 DWP, *Impact Assessment: Abolition of elements of the discretionary Social Fund and replacement with new local welfare assistance*, October 2012, paras 4-6

288 Q 177

289 Ev 62

290 Ev 70

vulnerable families and that local authority schemes should reflect the current structure of the parts of the discretionary Social Fund which they are designed to replace.[291]

211. The Secretary of State told us: "I think it is better to have things like the Social Fund locally, because at least then there is a chance they get face-to-face discussions with people". He said that in the past Social Fund payments had been treated as a benefit top-up but it would now be possible "to start to deal with the problem that is at the root cause of why they are getting into situations where they cannot pay their debts".[292]

212. **Social Fund discretionary payments currently provide a safety net for some of the most vulnerable people. We believe that giving local authorities responsibility for a new system of local welfare assistance without central guidance on how to determine eligibility, and in the absence of ring-fenced funding, will result in uncertainty and inconsistency in the way the support is administered. It may well lead to real hardship for benefit claimants who have nowhere else to turn in crisis situations. We are of the view that the Government should reconsider its position on ring-fencing but, if it is not prepared to do this, we recommend that DWP put systems in place to ensure that it closely monitors the extent to which local authorities are able to meet demand for local welfare assistance and that it is alerted at an early stage to specific instances of genuine need being unmet because of different local priorities or shortage of funds.**

291 Ev 74

292 Q 228

7 Implementation Programme

Implementation timetable and pilots

213. The Government first announced an implementation timetable for Universal Credit in November 2011, with three main phases planned between October 2013 and the end of 2017.[293] It made a further announcement on implementation in May 2012 which indicated that there would be an early roll-out of Universal Credit in April 2013 in a "Pathfinder" area in Greater Manchester, in order to test the system with local authorities, employers and claimants in a live environment.[294]

214. DWP is also running pilots to test particular aspects of Universal Credit implementation. In June 2012 it set up a series of "housing demonstration projects" to assess the impact of paying housing benefit directly to tenants and to consider the types of budgeting support which could be used to help Universal Credit claimants manage their housing payments. In August 2012 it announced a series of local authority pilots to assess the need for face-to-face advice for claimants.[295]

215. Witnesses supported the DWP's use of pilots to test aspects of Universal Credit before full implementation, but questioned whether it was sufficiently committed to learning from the pilots and whether it had enough time to evaluate the outcomes and modify any aspects of the system design before the full roll-out. Sir Merrick Cockell of the LGA said that DWP would need to look very carefully at the outcomes of the local authority face-to-face pilots as they emerged, and "be prepared to adapt and to give financial assistance when that is clearly necessary to local authorities."[296]

216. UNISON commented that it was difficult to see how the lessons learned from the pilots would be disseminated and how local authorities would make the necessary changes in time for the first phase of national implementation in October 2013.[297] Gavin Smart of the Chartered Institute of Housing doubted whether there would be sufficient time during the housing demonstration projects, "to gather data, to understand what it means and then to understand what the changes ought to be".[298] Alison Garnham of CPAG agreed that there was limited time for findings to be integrated into the model in order to learn from them.[299]

217. The Secretary of State told us that Universal Credit implementation "is not October [2013] Big Bang. This is a four-year development process of different benefits coming

293 DWP Press release, 1 November 2011, "Iain Duncan Smith sets out next steps for moving claimants on to Universal Credit"

294 DWP Press release, 24 May 2012,"Iain Duncan Smith: Early roll out of Universal Credit to go live in Manchester and Cheshire"; see also Ev 90, paras 5-8

295 DWP Press release, 31 August 2012, "Freud announces successful Local Authority led Universal Credit pilots"

296 Q 17

297 Ev 115

298 Q 63

299 Q 185

through”.[300] However, Professor Mike Brewer of the IFS argued that the Government was essentially going for “a big bang roll-out” rather than learning from previous experience in piloting major reforms. He said that the Government was “going full speed ahead on really big reforms and we just will not know what the real impact is.”[301]

Regulations and guidance

218. The Welfare Reform Act which provides the underpinning legislation for Universal Credit received Royal Assent in March 2012. The implementation of the Act will require the passage of several sets of detailed Regulations. DWP published these Regulations in draft on 31 May and invited SSAC to comment on them. SSAC ran a consultation which closed in August, and has now submitted its recommendations to DWP.

219. Much of the detail of how Universal Credit will operate will not be contained in the Regulations, but will be explained in accompanying DWP guidance for its staff, usually in Jobcentre Plus, who act as decision-makers, and who will have discretion to decide how to respond to individual circumstances. DWP is working to a timetable that will give stakeholders the opportunity to feed into guidance and comment on drafts. It says that “early discussions have begun to seek stakeholder views on some specific topic areas, however wider engagement on content for the guidance is expected to take place in October.”[302]

220. Alison Garnham of CPAG commented that, while it might appear simpler to have fewer Regulations and more detail in guidance, “our concern is that we need all the Regulations and all the guidance properly consulted on and understood before all of this starts”.[303] Gillian Guy of Citizens Advice agreed on the need for consultation: “if we can get it as near right as we can then this stands a better chance of success”.[304]

DWP communications

221. Some witnesses commented on the quality of DWP communications, in relation to: consultation about the design of the Universal Credit system; the timetable for finalising the detailed operation of the system; and providing essential detailed information for providers about how the service would be delivered to claimants.

222. Sir Merrick Cockell of the LGA was largely positive about communications between the LGA and DWP:

> I am pleased to say that there have been quite recently real changes in DWP’s approach and a realisation that frankly unless local authorities and their partners in local areas are there, this is not going to work and we are essential to helping to make it work for the most difficult group […] The message to DWP is “The more you

300 Q 334

301 Q 108

302 Ev 103

303 Q 185

304 Q 186

> work closely with us […] the more chance there will be that this will actually end up working in a few years' time".[305]

Gillian Guy of Citizens Advice believed that DWP was listening to concerns about the proposed Universal Credit payment arrangements, saying that "we certainly are in discussion [with DWP] and I think there are signs that there is some listening going on. No one wants a disaster."[306]

223. Other witnesses were more critical. Crisis said that it was "disappointed by the approach of the DWP towards stakeholder engagement. We feel that the department has failed to fully and adequately engage and consult all relevant stakeholders and that little information about progress towards implementation is being made available."[307] HomelessLink commented on how little accessible information was in the public domain and the poor overall involvement of agencies in the design of the system. It believed that this was understandable given the speed with which the changes were being introduced, "but is not excusable".[308] Gavin Smart said the Chartered Institute of Housing was "concerned that the amount of information from DWP is insufficient to allow all sorts of different groups of people to prepare for the implementation". He argued that, even if it was not possible for DWP to provide certainty now, it should "give people a point of time at which you will be able to give an answer" to enable them to start to prepare."[309]

224. Lord Freud told us that the development of Universal Credit policy had been "a very open process" which had "benefitted from having an open dialogue with numerous groups outside" and that Government had "made a huge amount of effort to have that communication, including indeed with parliamentarians". He stressed the importance of constructive engagement and feedback and said that "we have been incorporating those ideas and thoughts into the Regulations and the guidance to make sure the system works".[310]

IT systems

225. Witnesses have commented that IT is one of the biggest areas of risk affecting the Universal Credit programme. DWP is managing the development of the new Universal Credit computer system using an "agile" delivery approach which is based on iterative development and close working with future users of the system. The approach places the focus on building what is needed to support users, rather than functional components, and ensures that the highest priority elements are built first. It also takes full account of feedback from staff and claimants. It is planned that the Universal Credit IT system will interface with HMRC's Real Time Information (RTI) system which will provide monthly pay information for the calculation of benefit entitlements (as discussed in Chapter 5).

305 Q 16

306 Q 123

307 Ev w68

308 Ev w88

309 Q 60

310 Q 298

226. Inclusion highlighted that, although the agile system development approach being used for Universal Credit mitigated some risks, it did not address all the areas where errors had led to failures of previous DWP reforms; and that "maladministration, delays and complexity can significantly undermine claimant confidence and ultimately the willingness to return to work".[311]

227. The LGA said that there was a real risk that the DWP IT system would not be ready on time; that key design assumptions "are not grounded in reality"; and that if plans were not revisited now, additional costs would have to be incurred by central government and local authorities. The LGA Chairman believed that IT represented the biggest risk to Universal Credit: "history tells us that all-singing, all-dancing new online systems, if they go wrong or are found to be open to relatively easy fraud [...] people lose any confidence in them."[312] The IFS noted that "moving from the current system of benefits and tax credits to a single benefit system would require major administrative and IT changes. It is noteworthy that the Government is attempting this at a time when spending on benefit administration and public service spending generally is being cut".[313] The Public Accounts Committee made a similar point in a report published in September 2011.[314]

228. The Chartered Institute of Housing believed there were risks that the IT system would not be reliable and simple to use; and that there would be insufficient capacity in the system which would affect the speed of claim administration, liaison with claimants, accuracy of decisions and levels of fraud.[315] Notting Hill Housing Trust noted that "the new system will bring a host of internal challenges to the way we work". It said that it would be interested to hear more about "the safeguards that will reduce the prevalence of the kind of regional failures that are synonymous with large scale IT programmes".[316]

229. PCS highlighted that, when online claiming was brought in for the tax credit system, there was a rise in fraudulent claiming and that "while those administering the claim can check entitlement in person or on the phone, an online and automated system doesn't allow such discretion until after the overpayment has been made". [317] The Welsh LGA also commented on the need to learn lessons from the introduction of tax credits: "we need greater assurances that there will be better testing this time and we have to question the achievability of this under such aggressive timescales".[318]

230. ADASS and CPAG both pointed out that there was no provision in the draft Regulations for administering the benefit if the IT system broke down and apparently no broader contingency plan for such an eventuality. ADASS feared that "the amalgamation

311 Ev 62

312 Q 68

313 Institute for Fiscal Studies, *Universal Credit: A preliminary analysis of its impact on incomes and work incentives*, January 2011, p 70

314 Public Accounts Committee, Forty-Seventh Report of Session 2010-12, *Reducing costs in the DWP*, HC 1089

315 Ev 66

316 Ev w 146

317 Ev w157

318 Ev w192

of payments for adults, children and housing costs could leave claimants facing destitution if there is a problem with their claim or award".[319]

231. The LGA expressed concerns about the ATLAS system which would be used to exchange data between councils and Jobcentre Plus in order to administer Universal Credit, the benefit cap, localised support for council tax and the social sector size criteria. Councils had concerns over whether ATLAS would have the capacity and resilience to support the administration of the benefit cap, that manual interventions by staff might be required, and that these might lead in some cases to delays in payments.[320] East Riding of Yorkshire Council said that if Real-Time Information about changes in claimants' circumstances were to be passed to local authorities from HMRC and DWP, then local authority systems would struggle to cope with the increased flow of information.[321]

232. **The efficient transfer of data between DWP IT systems and the ATLAS system used by local authorities is as important to the successful implementation of Universal Credit as that between DWP and the HMRC RTI system. It is not clear from the evidence we have received from DWP whether the capacity currently exists to ensure information is passed accurately and quickly between central and local government. We request that, in response to this Report, DWP provides us with further details of the steps it has taken to ensure that its interface with local authority IT systems is robust.**

Staff changes

233. DWP told us that it was still too early to say how many DWP and local authority staff, and with what skills and experience, would be required for Universal Credit but that "it is anticipated that longer term, fewer staff will be required to deliver Universal Credit compared with the legacy benefits so it is expected that staff in each of the current organisations will be affected".[322]

234. PCS believed that DWP planned to transfer "several thousand staff from HMRC into DWP to deliver Universal Credit". It called for assurances that there would be no compulsory redundancies or staff cuts as a result of the transfer and for clarification on the arrangements for harmonisation of pay and benefit conditions. It argued that:

> Unrealistic staffing estimates will inevitably cause increased fraud and error, and delays in payments for claimants—leading to increased stress. Misjudging required staffing levels would also incur the extra expense involved in laying off staff initially and then having to recruit new staff later—as has happened in other departments and agencies recently.[323]

235. The LGA explained that the full impact on councils would depend on the role they were to have in the face-to-face delivery of Universal Credit, and on whether council staff

319 Ev w7 and Ev 70

320 Ev 111

321 Ev w 71

322 Ev 70

323 Ev w157

would be eligible for protected employment rights under the TUPE regulations enabling them to be transferred into Jobcentre Plus to join the DWP delivery teams. Depending on these two issues, councils could face “a very significant and costly redundancy and pension burden” and central government teams delivering Universal Credit would lack Housing Benefit expertise.[324] Sir Merrick Cockell emphasised that “there are enormous skills already existing in local authorities” and believed that “it seems rather perverse to lose people with those skills and go through a whole redundancy, with the cost of redundancies to the state, when […] those people should be at least given the opportunity to move across into the new system.”[325] The Welsh LGA highlighted that the impact on local authority staff was already being felt and that many employees were now looking elsewhere for job opportunities. It commented that “losing experienced staff at such a time is inevitably going to have a major impact, both in financial and performance terms”.[326]

236. Shelter expressed concern that the role of Housing Benefit officers would be downgraded or ended entirely. It pointed out that many issues with claimants involved either an element of discretion or local knowledge and suggested that it might be more efficient to retain Housing Benefit officers as a local point of contact for complex cases.[327] The Notting Hill Housing Trust was also concerned about “losing the level of trust and expertise that has built up through years of close working with borough partners” given that this had “helped to ensure that difficult caseloads are managed effectively with minimal impact on arrears collection”.[328] Alison Garnham of CPAG pointed out that “There is also the question of training DWP’s own staff because, given that so much will be left to discretion, they will need training on how to make those decisions so that they are not made unfairly.”[329]

237. **The Government has set a very ambitious implementation timetable for Universal Credit. Ministers emphasised that, because implementation will be phased over four years, there will be plenty of time to get it right. While it is true that system enhancements can be developed and refined over time, we believe that the basic structure and the essential elements of service delivery and support must be shown to be in place before the major roll-out of Universal Credit begins in October 2013.**

238. **We believe it is essential for DWP to begin monitoring, and reporting regularly on, the impact of Universal Credit on the full range of claimant groups as soon as implementation starts with the Pathfinder in April 2013. We request that DWP sets out its plans for impact monitoring in response to this Report.**

324 Ev 111

325 Q 8

326 Ev w192

327 Ev w169

328 Ev w146

329 Q 193

8 Conclusion

239. Universal Credit is a hugely ambitious reform programme. It will directly affect an estimated eight million households in the UK, and indirectly affect many more individuals, local authorities, businesses, housing providers and support and advice organisations. Replacing six existing welfare benefits with one new, single benefit which is fair for everyone of working age, and which offers real incentives to work as well as protection for those who cannot work, is a significant challenge.

240. We have been encouraged to hear that so many of our witnesses remain supportive of the principles behind Universal Credit, and believe that the proposed system can provide an opportunity to reduce complexity and to strengthen incentives to work. We believe that the Government has made significant progress in designing a system which will help ease the transition from benefits to work and congratulate it for the progress it has made in this respect.

241. There are, however, many outstanding questions about how the particular needs of more vulnerable benefit claimants will be met. The Government's view is that it has first designed a system for the majority, and that it is now turning its attention to the support required by the vulnerable minority. Its focus appears to have been on designing a system for those who will return to work, but many benefit claimants will never be able to take up or return to work.

242. We have particular concerns about those who will struggle to make and maintain a claim online, those who will find it difficult to make a single benefit payment last for an entire month, and those who will not be able to keep up regular rent payments.

243. We believe that the Government's proposed "exceptions" process to help these claimants cope may not accurately identify everyone who will need additional support. It is also likely to be expensive and bureaucratic to operate. And it may just not work. People are vulnerable for many different reasons, and many will only meet the required eligibility criteria when they have already fallen into debt or other hardship. We urge the Government to draw on the expertise of the many organisations with experience of working with vulnerable claimants and adjust the arrangements for administering Universal Credit to ensure their needs are met.

244. We fully support the Government's ambition to promote greater digital inclusion and to offer an online process for claiming Universal Credit. However, the presumption of "digital by default" which the Government proposed in the draft Regulations may face real challenges. The Government must also accept that some people will never be able to claim online, and provide alternative means of access to meet their needs effectively.

245. We are concerned that the arrangements for the detailed operation of the system are being finalised before a proper safety net system for vulnerable claimants has been designed. Although the precise details of implementation can be finessed and nuanced in the guidance for DWP decision-makers, this will be discretionary and subject to individual interpretation and we do not believe it provides sufficient protection for those who are most in need.

246. **Universal Credit development and implementation is taking place at a time of financial austerity and in the context of concurrent significant changes such as localisation of council tax support. We consider that the implementation timetable is ambitious and that there is significant further work to be carried out to ensure that the needs of the most vulnerable claimants can be met. The Government should reflect on the possible consequences of the scale of the proposed changes for some of the most vulnerable people in society and, if those consequences cannot be adequately addressed, should consider modifying its implementation timescale accordingly.**

247. **The Government has indicated that it expects to lay the Regulations to implement Universal Credit before Parliament in December. Ministers emphasised to us the importance they placed on open and effective consultation on drafting this policy. We hope it will take full account of the concerns raised in this report in finalising the detailed arrangements for delivering Universal Credit which will be set out in the Regulations.**

List of Conclusions and Recommendations

Introduction

1. It was clear from the evidence received in our inquiry that there is widespread support for the principles of welfare reform, the general direction of policy development for Universal Credit, and the aim of strengthening incentives to work and facilitating the move from benefits to work. We share this support for the Government's aims for Universal Credit. It was equally clear, however, that there is considerable concern about the ambitious timetable for introducing Universal Credit; whether there will be sufficient time for the Government to learn from its pilots; and whether it is desirable or necessary to implement so many changes at once. Concerns raised in the evidence centred very much on the impact the changes might have on the most vulnerable claimants, such as some people with disabilities, homeless people and those who already struggle to manage their finances. This report therefore focuses on the nature of the risks for these vulnerable groups and on the Government's plans for protecting them. (Paragraph 14)

Service delivery

Online access

2. We welcome the Government's objectives of moving to an online benefits claiming system and of increasing digital inclusion, and we recognise the potential benefits for many claimants as well as the important cost-reduction advantages. We are, however, concerned that some vulnerable claimants will not have the internet access or skills to be able to use the system and so may be unable to obtain their benefit entitlement. Simply removing other channels for claiming benefits will not equip people with the necessary skills and capabilities to make the transition to online claiming. (Paragraph 29)

3. For many people smartphones are now the preferred method of accessing the internet. We recommend that DWP gives priority to early development of an application to support Universal Credit claims from smartphones. (Paragraph 30)

4. The systems design for Universal Credit, the service delivery plan and the final version of the Regulations must reflect the reality that some people will need face-to-face support when making a claim for Universal Credit. DWP has been unable to present us with any clear plans for how the Universal Credit service will be delivered to those people who cannot make an online claim. Nor is it clear what DWP's target of 50% online claims in 2013 actually means; if there is to be no paper form then all claims will have to be online and the target is presumably an indicator of how many claimants will need telephone or face-to-face support. We request that, in response to this Report, DWP provides an explanation of its online targets and a clear statement of its proposed service delivery arrangements, setting out how people will be informed about where to go to make a claim, what support they will be able to get there, and what resources DWP is investing in that support. These arrangements

need to be in place before anyone is required to start claiming Universal Credit. (Paragraph 42)

Access for intermediaries

5. Some people rely on advisers and other advocates to help them to make and to resolve problems with their benefit claims. These intermediaries need to access relevant information about the claims in order to provide assistance and to seek explanations from DWP staff. It is not clear how intermediaries will be able to access this information when it is held online, unless the claimant is actually present and able to sign into their account. We request that, in response to this Report, DWP provides more information on how intermediaries will be able to access claimants' online information without compromising system security. We also request confirmation that DWP will continue to provide advice helplines for advisers to discuss cases. (Paragraph 46)

Independent advice and support

6. There will be a significant increase in demand for advice services for claimants during the four-year period of Universal Credit implementation. We urge DWP to work with the advice sector to quantify and provide the extra resources necessary to fund retraining of advisers and the additional advice services which will be required to ensure a successful implementation of Universal Credit. (Paragraph 51)

Claims and Payments

Monthly payments

7. We understand the Government's preference for moving to a monthly payment system for Universal Credit, given that 70% of people in work are paid this way, and this amount is increasing. We accept that monthly payments of Universal Credit will make the transition to monthly salary easier for claimants and improve the position for claimants whose work status fluctuates. However, monthly payment is not the norm for many people on a low income and some claimants will return to weekly payments when they return to work. Budgeting weekly or fortnightly can be an effective way of managing a low income, and is not necessarily a sign of poor money management and monthly payment risks disrupting the existing budgeting methods of some households. Financial literacy training is likely to be expensive to provide and is unlikely to solve the difficulties of managing on a tight budget. (Paragraph 65)

8. We are concerned that the Government's proposed exceptions process will be too slow in identifying people who may struggle to adapt to monthly payments and who may fall into debt or suffer further hardship. We recommend that DWP monitors the impact of monthly payments from the start of the Pathfinder in April 2013 and moves quickly to change its approach if this payment system appears to be creating difficulties for claimants. (Paragraph 66)

Single payment per household

9. A single household payment may not be suitable for every household claiming Universal Credit and we therefore see disadvantages in insisting that all households receive their benefit this way. There is potential for women to lose out under this arrangement and a risk that money intended for children or for rent will not be used for its intended purpose. We therefore recommend that DWP decision-makers have the discretion to allow payments to be split between two partners in a household, where circumstances make this necessary. This would not conflict with the Government's intention of calculating Universal Credit on a household basis. (Paragraph 73)

Direct payment of housing costs

10. The proposal under Universal Credit to pay the costs of rent to the benefit claimant, rather than direct to the landlord, is a major change to the benefit regime for tenants in the social housing sector and for some in the private rented sector. We note the Government's view that this will contribute to claimants' financial capability. While we recognise that many existing social tenants and most tenants in the private rented sector already pay their own rents, we are concerned that some vulnerable claimants will be unable to manage making regular rent payments and may fall into arrears. (Paragraph 83)

11. Initial findings from the pilots the Government is running to test the impact of direct payments of housing costs to claimants, the "housing demonstration projects", showed that just over half of tenants surveyed felt confident receiving their housing costs payment direct. Pilots receive additional time and attention both from landlords' staff and from local authorities' housing benefit staff in a way which would not be practical as larger numbers are brought into Universal Credit. Care must be taken in drawing conclusions from such small-scale pilots. (Paragraph 84)

12. We believe that the Government's long-term aims for Universal Credit are more likely to be achieved if time is allowed for a proper evaluation of the housing demonstration pilots, followed by a phased implementation of direct payments after appropriate safety net arrangements for vulnerable people have been developed and tested. We therefore recommend that, during the initial phases of Universal Credit implementation from April 2013, claimants who currently have their housing costs paid to their landlord should have the option to continue with this arrangement. (Paragraph 85)

13. We also recommend that the Government moves quickly to publish a clear definition of "vulnerable" groups within Universal Credit for whom it will not be appropriate to include housing costs in their benefit payment. It also needs to establish a robust process for proactively identifying claimants who are struggling to manage their housing costs so that they can be properly assisted before they fall into arrears and face eviction. (Paragraph 86)

Bank accounts

14. Some potential Universal Credit claimants do not have a bank account. Some witnesses were concerned that these claimants may have particular problems managing monthly payments and housing costs and may be vulnerable to exploitation, particularly from those loan companies and operators charging excessive interest rates. We welcome the Government's support for credit unions, but note that it is likely to be some time until credit unions have sufficient national coverage and capacity to offer a solution to everyone who needs it. We therefore welcome the Government's intention to ensure a range of financial product options are available to claimants. However, it is essential to ensure that any new products provide the same protection for customers as mainstream bank accounts. We note that DWP is proposing to subsidise the first year of customer charges under the proposed new scheme. The Government must assess during that year whether support for subsequent years will also be required, and plan accordingly. (Paragraph 99)

Universal Credit entitlement

Payments to cover the additional costs of disability

15. The Government has clearly stated its intention that Universal Credit will provide more generous support for disabled adults and disabled children than it does for people in similar circumstances who are not disabled. We have not yet received sufficient evidence that the current plan for additional disability elements ensures this is the case. We are pleased to see that expenditure on disabled people as a whole will not be reduced. Our concern is how individual disabled claimants whose entitlement is reduced under Universal Credit will access substitute help. Transitional protection will mean that they do not lose in cash terms immediately but it will not provide a long-term solution because it diminishes over time and ends if their circumstances change. The Government needs to ensure that schemes are in place to support individuals to adjust. New claimants who may receive less under Universal Credit than they would have done under the existing system will also need help to live within the sum of all sources of support available in addition to Universal Credit. We recommend that the Government addresses concerns about the system of disability additions within and outside Universal Credit, particularly where these affect disabled children and severely disabled people, to meet its commitment to provide generous support to those particularly vulnerable groups of claimants and to ensure that there is no diminution in their overall benefit package which includes their entitlement under Universal Credit. (Paragraph 115)

Childcare costs

16. We welcome the extension of help with the costs of childcare for Universal Credit claimants so that it is available to parents who work fewer than 16 hours a week. However we note that the effective level of support will be less for some families who are currently benefiting from disregards under Housing Benefit and Council Tax Benefit. The costs of childcare are a key factor in achieving real financial benefits from returning to work and the Government will need to monitor the extent to which the childcare element of Universal Credit is effective in promoting work incentives, particularly in the context of the high cost of childcare in the UK. (Paragraph 121)

Housing costs

17. Removing Support for Mortgage Interest as soon as any hours of work are undertaken could discourage some claimants from entering part-time employment, especially single parents who have been able to remain in the family home after separation, and people making a phased return to work after illness. There is also the possibility of unintended higher spending consequences if claimants move to private rented accommodation, where assistance with housing costs will be given. We recommend that the Government looks again at this provision. (Paragraph 127)

18. We welcome the Government's decision to exclude supported exempt accommodation from Universal Credit. However, DWP must urgently finalise and publish the details of the revised arrangements so that providers have the certainty they need to plan ahead and maintain their service provision. DWP must also clarify how the administration of supported exempt accommodation rental charges will operate within the Universal Credit system, and in particular, whether or not housing costs will be paid direct to landlords. (Paragraph 134)

Calculation of income

Earnings disregards

19. A clear and easily comprehensible earnings disregard system is critical in order to ensure that benefit claimants can work out the financial advantages of returning to work or increasing their hours. We need more information to be clear that the simplified system set out in the draft Regulations achieves this, particularly for claimants with low housing costs for whom a choice of earnings disregard will exist. We are pleased that the Government is reassessing the proposed disregards. (Paragraph 141)

Employment earnings

20. Ministers are confident that RTI will be delivered on schedule and in time to support the introduction of Universal Credit. The RTI implementation timetable is, however, very ambitious and leaves little opportunity for dealing with any problems which may arise. Tax, accountancy and business organisations have raised a range of specific concerns about the RTI programme with us. We did not receive satisfactory responses to our questions about these detailed issues in either our formal evidence session or our informal meetings with DWP and HMRC officials. It is therefore unclear whether these issues are under control or what measures will be put in place to deal with problems as they emerge during full implementation. (Paragraph 148)

21. We request further information from DWP, in response to this Report, on its contingency plans for receiving information on earnings for the calculation of Universal Credit payments if the RTI link is not available. We understand that, if this happens when Universal Credit is introduced, claimants will be required to provide information on their monthly earnings using their online accounts. It is not clear how this will operate in practice or what arrangements will be used for those who cannot manage online accounts. We therefore request that the additional information from DWP includes details about how claimants can provide monthly updates on their earnings if they are unable to manage their claim online, and about the resource implications for DWP of verifying earnings information provided directly by claimants. (Paragraph 149)

Self-employed earnings

22. We welcome the Government's efforts to ensure that the self-employed are incentivised to increase their earnings rather than rely on benefits, more closely reflecting the position for the employed or those seeking employment. We also welcome the decision to allow self-employed claimants one start-up period every five years instead of once in a lifetime, but are concerned that the Minimum Income Floor may act as a disincentive to entrepreneurship. (Paragraph 155)

23. While welcoming efforts to simplify the provision of information by the self-employed, we share the concerns of witnesses representing professional and taxation bodies that the use of an accounting method different to that used by HMRC may impose a significant and unnecessary burden on the self-employed and we recommend that DWP liaises with HMRC and the professional bodies as a matter of urgency to address these issues. (Paragraph 156)

Benefit cap

24. While we support the principle behind the benefit cap, it is imperative that it does not affect the most vulnerable households in a way which makes it impossible for them to cope. We are therefore pleased that DWP has made additional funding available to help mitigate the impact of the cap on these families. We believe that the Government should consider, in particular, the impact on those in temporary accommodation which often attracts higher rental payments, and how the cap might be adjusted to take account of this. We request that DWP sets out in its response to this Report how it intends to monitor the impact of the cap. DWP also needs to clarify how the threshold for calculating income levels which would exempt households from the cap will take account of other statutory rights such as sick pay and maternity pay. (Paragraph 165)

Implications of other policy changes

Conditionality and sanctions

25. DWP has already imposed a more robust conditionality regime on JSA claimants and this will be continued through into Universal Credit. One element is the

claimant commitment. This has the potential to help benefit claimants return to work, by making clear what job-search requirements they must fulfil. While we recognise that this is important, we also believe it is essential that DWP supports claimants in the job-search and that the support available to each claimant is clearly set out and actually provided. (Paragraph 182)

26. The new regime also includes tougher sanctions with the ultimate penalty of benefit being withdrawn for three years. Sanctions are a necessary and important part of the benefits process, but there is little evidence that they strengthen work incentives on their own. The effectiveness of the new regime is likely to depend heavily on the quality of the face-to-face support provided by DWP through Jobcentre advisers. Sanctions must be used by DWP staff primarily as a deterrent and a last resort. Staff need to be properly trained to apply sanctions appropriately, and to explain clearly why they have been applied and what remedial action the claimant needs to take for benefit to be restored. We request that, in response to this Report, DWP explains how Jobcentre staff will be equipped to implement the new conditionality and sanctions regime effectively. (Paragraph 183)

Passported benefits

27. The additional support currently available to many benefit claimants through passported benefits, particularly free school meals, is valued by families, and the entitlement criteria have a significant impact on decisions about returning to work or increasing working hours. Finding a way of administering passported benefits under Universal Credit is a complex issue, involving many other Government Departments and the Devolved Administrations. We accept that there are no easy answers but we believe it is essential for the Government to put fair and workable criteria in place to avoid adding complexity to Universal Credit and the risk of reducing incentives to work. (Paragraph 194)

28. DWP has sought and been given detailed advice by the Social Security Advisory Committee about possible ways of establishing new eligibility criteria for passported benefits under Universal Credit. It now needs to make decisions. We welcome the Government's assurance that, initially, under the Pathfinder, all Universal Credit claimants will retain entitlement to free school meals. A clear indication is now needed on the arrangements it will put in place when Universal Credit is implemented nationally from October 2013, before moving on to consider long-term solutions. We regard "cashing up"—including a cash equivalent of passported benefits in the Universal Credit payment—as an interesting idea which might have the potential to avoid "cliff edges", the risk of a sudden drop in entitlement as soon as income levels rise above a certain level. DWP should now explore this in greater detail. (Paragraph 195)

Localisation of Council Tax support

29. We believe that the Government's decision to localise council tax support under a proliferation of local schemes, rather than including it within Universal Credit, will work against its objective of simplification of the benefits system. It will introduce local variation, add additional complexity to earnings incentives and has the potential seriously to undermine the objectives of Universal Credit in terms of enabling claimants to see clearly the financial benefits of taking up a job or working more hours. (Paragraph 206)

30. The decision to reduce central government funding to local authorities for council tax support by 10%, but at the same time to protect pensioners, means that the burden is likely to fall on low-income working-age households, many of whom will be asked to pay council tax for the first time. The recently announced additional short-term funding for local authorities is welcome and may help to reduce the impact on some low-income families. However, we believe that it is essential that DWP fully understands the interaction between the changes to council tax support and the introduction of Universal Credit, particularly for low-income households, and that it begins monitoring the impact of the new council tax support arrangements as soon as they are implemented from April 2013. We request that DWP sets out its plans for this monitoring work, including the timetable, in response to this Report. (Paragraph 207)

Localisation of the Social Fund

31. Social Fund discretionary payments currently provide a safety net for some of the most vulnerable people. We believe that giving local authorities responsibility for a new system of local welfare assistance without central guidance on how to determine eligibility, and in the absence of ring-fenced funding, will result in uncertainty and inconsistency in the way the support is administered. It may well lead to real hardship for benefit claimants who have nowhere else to turn in crisis situations. We are of the view that the Government should reconsider its position on ring-fencing but, if it is not prepared to do this, we recommend that DWP put systems in place to ensure that it closely monitors the extent to which local authorities are able to meet demand for local welfare assistance and that it is alerted at an early stage to specific instances of genuine need being unmet because of different local priorities or shortage of funds. (Paragraph 212)

Implementation Programme

32. The efficient transfer of data between DWP IT systems and the ATLAS system used by local authorities is as important to the successful implementation of Universal Credit as that between DWP and the HMRC RTI system. It is not clear from the evidence we have received from DWP whether the capacity currently exists to ensure information is passed accurately and quickly between central and local government. We request that, in response to this Report, DWP provides us with further details of the steps it has taken to ensure that its interface with local authority IT systems is robust. (Paragraph 232)

33. The Government has set a very ambitious implementation timetable for Universal Credit. Ministers emphasised that, because implementation will be phased over four years, there will be plenty of time to get it right. While it is true that system enhancements can be developed and refined over time, we believe that the basic structure and the essential elements of service delivery and support must be shown to be in place before the major roll-out of Universal Credit begins in October 2013. (Paragraph 237)

34. We believe it is essential for DWP to begin monitoring, and reporting regularly on, the impact of Universal Credit on the full range of claimant groups as soon as implementation starts with the Pathfinder in April 2013. We request that DWP sets out its plans for impact monitoring in response to this Report. (Paragraph 238)

Conclusion

35. Universal Credit development and implementation is taking place at a time of financial austerity and in the context of concurrent significant changes such as localisation of council tax support. We consider that the implementation timetable is ambitious and that there is significant further work to be carried out to ensure that the needs of the most vulnerable claimants can be met. The Government should reflect on the possible consequences of the scale of the proposed changes for some of the most vulnerable people in society and, if those consequences cannot be adequately addressed, should consider modifying its implementation timescale accordingly. (Paragraph 246)

36. The Government has indicated that it expects to lay the Regulations to implement Universal Credit before Parliament in December. Ministers emphasised to us the importance they placed on open and effective consultation on drafting this policy. We hope it will take full account of the concerns raised in this report in finalising the detailed arrangements for delivering Universal Credit which will be set out in the Regulations. (Paragraph 247)

Formal Minutes

Monday 12 November 2012

Members present:

Dame Anne Begg, in the Chair

Mr Aidan Burley	Glenda Jackson
Jane Ellison	Nigel Mills
Graham Evans	Teresa Pearce
Shelia Gilmore	

Draft Report (*Universal Credit implementation: meeting the needs of vulnerable claimants*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 247 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report, in addition to that ordered to be reported for publishing on 5 September 2012

[Adjourned till Monday 19 November at 4.15 pm.

Witnesses

List of printed written evidence

List of additional written evidence

(published in Volume II on the Committee's website www.parliament.uk/workpencom)

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Youth Unemployment and the Future Jobs Fund	HC 472 *(HC 844)*
Second Report	Changes to Housing Benefit announced in the June 2010 Budget	HC 469 *(HC 845)*
Third Report	Appointment of the Chair of the Social Security Advisory Committee	HC 904
Fourth Report	Work Programme: providers and contracting arrangements	HC 718 *(HC 1438)*
Fifth Report	The Government's proposed child maintenance reforms	HC 1047 *(HC 1727)*
Sixth Report	The role of incapacity benefit reassessment in helping claimants into employment	HC 1015 *(HC 1641)*
Seventh Report	Government support towards the additional living cost of working-age disabled people	HC 1493 *(HC (12– 13)105)*
Eighth Report	Automatic enrolment in workplace pensions and the National Employment Savings Trust	HC 1494 *(HC (12–13)154)*

Session 2012–13

First Report	Appointment of the Chair of the Social Security Advisory Committee	HC 297
Second Report	Youth Unemployment and the Youth Contract	HC 151

Oral evidence

Taken before the Work and Pensions Committee

on Wednesday 5 September 2012

Members present:

Dame Anne Begg, in the Chair

Harriett Baldwin
Karen Bradley
Glenda Jackson
Stephen Lloyd
Teresa Pearce

Examination of Witnesses

Witnesses: **Sir Merrick Cockell**, Chairman, and **Councillor Catherine West**, Executive Member, Local Government Association, **Gavin Smart**, Director of Policy and Practice, Chartered Institute of Housing, and **Pete Challis**, National Officer (Local Government and Housing), UNISON, gave evidence.

Q1 Chair: Can I welcome you to this morning's session and thank you very much for coming along to kick off our inquiry into the implementation of Universal Credit? I wonder if I could ask you just very quickly to introduce yourselves and your organisations, perhaps starting with you, Pete.
Pete Challis: I'm Pete Challis. I'm National Officer at UNISON in the Local Government section.
Gavin Smart: Gavin Smart, Director of Policy and Practice at the Chartered Institute of Housing.
Sir Merrick Cockell: I'm Merrick Cockell. I'm Chairman of the Local Government Association (LGA), representing local government in England, and Leader of the Royal Borough of Kensington and Chelsea.
Catherine West: I'm Councillor Catherine West. I'm the Leader of Islington Council and I'm an Executive Member at the LGA, on the finance panel.

Q2 Chair: You are very welcome, thanks very much. We have a lot to get through this morning. You are our first panel and we have another one after you, so I hope you don't feel you are being rushed but, at the same time, we do want to get through and cover as much as we possibly can.
The Government plans to make the administration of Universal Credit a digital one by default; in other words, it is digital unless you can prove that you cannot do that. Initially, they are aiming to have 50% of Universal Credit claimants managing their claims online. Do you think that 50% online target by 2013 is achievable?
Pete Challis: The evidence we submitted suggests that it is going to be very difficult. Department for Work and Pensions has been trying to do Job Seekers Allowance (JSA) online. Their 2011–12 Annual Report said that JSA online was 10.4% as at March 2011, and 19.6% as at March 2012. Their target was 80% by September 2013; we do not think they are going to achieve that. I think there is some evidence to suggest that that is the case, because, very recently—in fact, last week—DWP introduced some trailblazers to encourage people to go online, and they are quite punitive. JSA customers who refuse to go online and who insist on remaining on the telephony channel will not be allowed to make a claim over the phone at first contact, but will get a call-back appointment three days after their initial contact instead. Secondly, they are going to mandate customers who they think can and are eligible to use JSA online to do so, and a telephony claim will not be an option for those customers. If that came in in relation to Universal Credit, I think there would be real problems.

Q3 Chair: I am sure the others have got an answer to the first question, and I will come back to you, but can I just pursue that a second? What is the Government proposing that people who may not have access to computers do? Is there anything that you are picking up that the Government is planning to put in place to allow people to have that access?
Pete Challis: We understand that there will be call centre support, but it will be largely the sort of call centre where you press one, press two, with encouragement to go back online. In our evidence, we referred to a statement from one of the lead officers in the design of the programme, who talked about imagining call centres with no staff. We could not understand how that would work.

Q4 Chair: I suppose I am just asking a simple question: physical access to a computer will be a problem for a lot of this cohort. Where are they going to find the computers? Will they be able to go into a Jobcentre Plus? There were "hot phones" or "warm phones", or whatever they were called, in Jobcentre Plus for a while. Will there be computers there?
Sir Merrick Cockell: Clearly, what local government has been initially offering—and I am pleased that DWP has taken up that offer, principally, I think, due to Lord Freud's close involvement in it—is an acceptance that they are the right organisation to lead the face to face contact. This could be face to face, as you have indicated, because of the short timescales and complication of the system, and with a group of people who may not already have computer skills and may not have easy access to a computer or any online ability at home—and indeed the costs and all those sorts of implications. The face to face, but also helping people through using the online system, is very likely going to be carried by local authorities, but

may well be in their libraries as well, where people can generally get free access to the internet and, therefore, could be taken through, if they do not already have those skills.

That is our role. We have pilots that have just been announced—pilot authorities that are going to be doing the work that the rest of local government and DWP will be able to, hopefully, learn from. It is, however, going to be an enormous challenge, just on the assumption or the belief that most of this work will be done relatively easily and cheaply online. It is a great direction to be moving in. That is right and we will all work to make it happen, because it makes good economic and systems sense as well, but it is going to be very difficult to get there.

Gavin Smart: I would agree. The direction of travel is one that we would all support but the challenges are enormous. 27% of households have no internet access at the moment, and about 28% of those are social housing tenants, who tend to be highly represented amongst benefit claimants. Of course, it is not simply about physical access; it is also about the skills, the abilities and the confidence. It is about the degree to which, currently, benefit claimants often receive a degree of support in completing their claim. It is a big move. We support the move, but I think it is important that DWP make clear how they are going to support that move to getting more people online and the additional support and, actually, funding that they need to put in place to make that happen. Otherwise, I think this kind of big-bang approach is quite high-risk.

Q5 Glenda Jackson: Mr Challis, to go back to the point you were making about the trailblazer scheme, I wonder if there is a kind of punitive element in that. There are people, even if there are computers available and there may be assistance in using the computer, who will never, ever be able to use them. Is there going to be some kind of punitive approach or has the Government set in place ways for them to be able to use the system that they already use and know well?

Pete Challis: We don't know what approach the Government is going to take in relation to them. The point I was trying to make is that we are seeing evidence that the Government sees that they are having difficulty getting people on JSA online from the punitive steps that they are taking in relation to the new procedures they are starting to introduce with JSA claimants at the moment.

Q6 Glenda Jackson: Is your assessment of the trailblazers essentially that the Government is going to push for everybody getting online, and there is going to be no failsafe for people who will never, ever be able to use that system?

Pete Challis: The Government's target is 80% online by 2017, and it thinks 50% online by October 2013.

Q7 Chair: From what you are saying, Mr Challis, you obviously think that the Government is underestimating the need for face to face contact to help with claims. Now, you have all said that it is unlikely that that face to face contact or help is going to come from the DWP or Jobcentre Plus, so where are people going to go to get that help, even if it is help accessing an online claim or help with completing an online claim? Are the local authorities geared up, and do you have the money and the financing? I suspect the answer to that is no. What is it that local authorities need to do, have been doing or are gearing up to do in order to give a level of support for claimants that they hitherto have not had a role in providing?

Catherine West: On the question of increased amount, just in my own borough we have had 250 more visits from new people into the Citizens Advice Bureau (CAB), which is a sort of council-sponsored Citizens Advice Bureau. Even just the changes to the disability regulations have led to a huge number. The other thing, I think, that you should all expect is much more casework. I hope that you are warning your secretaries that there is going to be lots more casework coming in to your advice bureaux, with letters saying, "Can you help me out with this?", because there are going to be so few contact points for face to face. I think this is the case with all the different changes, because 19 million people are affected by the Government proposals and, even in the areas where there is not very much benefit dependency, there will be lots of people who simply do not know what is happening. That will be a point of contact for them.

Q8 Chair: My local CAB says that, actually, they are less able to help with benefits inquiries now than they used to be, because their funding is under squeeze. Is that something that is across the country? If we are looking to CABs to pick up this workload on less funding, where are people going to go?

Sir Merrick Cockell: Clearly, people are going and will go to places that they are familiar with. If they have been working with the CAB, or the CAB is strong in their area, then they will, no doubt, naturally go there, but I think the default will generally be the local authority, because that is where they have been going and having that face to face work, if they are unable to immediately go online and use the new IT system. Most local authorities are looking at offering some sort of triage model on the basis of the traditional one-stop shop, so that people will be able to go their local authority and, *via* that, deal with Jobcentre Plus, social landlords, credit unions or whatever it may be. That is where we think people will gravitate to, and they are going to be signposted in that direction anyhow.

Yes, you are absolutely right: everybody knows our very substantial reductions in finance and the other pressures of council tax benefit coming through. There is a lot going on. There is a lot of pressure. We are into a lot of difficulties with our benefits staff; we are in disagreement with Government at the moment as to whether they could or should be able to, under TUPE (Transfer of Earnings Protection of Employment), move across to work for the DWP Universal Credit side. DWP say not, and their legal advice supports that. We would say there are enormous skills already existing in local authorities, with that local knowledge, let alone fraud and all the other vital pieces of great knowledge built up over a long period.

It seems rather perverse to lose people with those skills and go through a whole redundancy, with the cost of redundancies to the state, when, actually, those people should be at least given the opportunity to move across into the new system.

Q9 Chair: Pete, you obviously represent those workers. What do you think the Government should be doing with them?
Pete Challis: Because DWP has focused on an online delivery mechanism, and the pilots and the Pathfinders are all set up in order to support the online, what is being missed is that, whilst you will have 12 pilots and four Pathfinders, there are 400 local authorities and Universal Credit is going to come in on day one, affecting all of those 400 local authorities. We have been saying to DWP that they need to be planning now for the integrated local service delivery element of the Universal Credit service, because it is only that way that they will be able to guarantee the quality of service that the public have the right to expect.
If I just give you a very short quote from one benefits manager, "The Universal Credit service will leave face to face to local authorities, but customers will have to deal with claims online. The telephone service is said to be a 'push one for this, two for that', before sending people back online. How will anybody ever get any information about claims, particularly support workers? Real people, real problems: nobody to raise questions with except local authorities, who will not have the answers." Unless you establish an integrated model—so, if someone is seeking to make a claim, they are able to go to their local authority and get the whole thing processed through, with the local authority being able to access the DWP system—we think there are going to be real problems.

Q10 Harriett Baldwin: I completely recognise the issue that Sir Merrick was raising about the skills of the implementation teams in local government. In my area, we have an excellent team that administers for three local district councils in South Worcestershire. The point I wanted to ask was really about rural constituencies, because both of you are leaders of London councils. In West Worcestershire, obviously we are very rural. Would you see a role for the Post Office network in being a place where people could use computer screens and have some help with proving their identity and using that network, which is very well established in rural areas, as a hub of delivery of these kinds of services?
Catherine West: There may be data protection issues there, because we know, even within our own systems, that certain departments of the council have to be very, very carefully protected, because of the computer systems being secure.

Q11 Harriett Baldwin: But they do the Check and Send, don't they, for passports at the moment in Post Offices?
Catherine West: They do. That may be a straw man with which you could try to knock down the data protection, because occasionally it is used as an excuse not to explore a particular option. That may be something which this Committee could work on to try to get better access, because I think access is going to be absolutely key, particularly if the telephone is not going to work. Also, I think maybe an approach needs to be made to the Post Office to ask whether they have the resources to help people to get online. I know library services do that in many local authorities, and I suppose older people will not be affected in terms of council tax benefit, but there might be other Universal Credit issues that will affect them, so that is something that may be worth doing: approaching the Post Office service and seeing whether they are in a position to assist.

Q12 Chair: In the long term, do you think it is likely that 100% of claimants will be able to claim online? If not, how are DWP and how are you going to identity the vulnerable claimants? They will be stuck in some kind of telephone loop, from what you just described, not ever getting to speak to anyone.
Gavin Smart: It does not seem realistic to assume that 100% of claimants will be able to claim online in any eventuality, simply because some people will not have the skills, the abilities or the access to do it, so there will always be a residual number of people who cannot operate an online claims system. I don't think I want to guess what that would be, but I think any analysis suggests that you would not get to 100%. What that will mean is that a variety of different organisations, whether or not it is local authorities, landlords or some DWP call centre, will have to provide those people with support and advice in order to navigate their way through the claims system.
Pete Challis: There is also an issue about the terminology "going online". Lots of people go online—80% plus of the population are online. They do Facebook, they might Google, but they don't do bank accounts. The DWP's own figures say, in the research that was published last month, that only 14% have done a benefit claim online.

Q13 Karen Bradley: That linked quite neatly into the questions I want to ask, which are about financial capability and people's understanding of finance. One of the things that have been put to me by constituents already is concern about moving to monthly benefit payments. What do the panel think the Government should be offering people to help them move, with the transition, to monthly payments of benefits?
Catherine West: I know that some local authorities have been involved in schools in doing financial education, and I think this is something which needs to be pursued perhaps with a bit more rigour. Also I know that some banking institutions, some people in the finance sector, have been helpful in that regard. However, Universal Credit will be a bit different from the council tax benefit, for example, because they will at least be able to come to the council and ask someone to sit down and go through with them a particular bill. We are worried about the public perception of all these difficulties coming in at the same time, because, at the same time that, obviously, the taxation is changing for people in the upper level—people on £150,000 and over are getting a tax cut, if you like—so it will almost look like the people

on the bottom will be paying for the tax cut that the people at the top are getting.

I think this is going to lead to a lot of public perception issues for the Government, because they are coming in, broadly, at the same time, at the same financial moment. I think even people with a low level of financial literacy will be very concerned about the fact that people on £150,000, which is, I think, double what an MP earns, will be getting a tax cut at the same time that people who have never paid council tax before will be having to pay. I think there are really serious financial literacy questions involved in that, but the basic one is fairness, and that is something that we, as local authorities, unfortunately, have to explain to people, even though it is a Government change. That is why councils, in a cross-party sense, are really against the council tax benefit change, because, really, it is looking like a complete shift in the tax burden, from the wealthiest to the poorest. That is really something that we have to grapple with in public perception terms, because they are coming in at the same time. That shift and "We are all in it together" will be seriously challenged.

Q14 Karen Bradley: If I can just say, it is quite a lot more than double what an MP earns.

Catherine West: Triple maybe?

Karen Bradley: What could the Government do to deal with that perception, then? Sir Merrick, do you have anything to add?

Sir Merrick Cockell: I will just say something on the financial literacy side specifically. That is the right thing, isn't it? We want people to be able to run their households and understand that paying their bills on a monthly basis is a sensible educational process, but this is going to be an enormous change for people, because, under the current benefits system, often people have received benefits at different times through the month and they have allocated particular receipts in against particular outgoings through the weeks or through the months. To get one payment to whichever is the first one in the household to register who, therefore, receives for the household that single benefit once a month, those are difficult enough skills for highly educated people, let alone those who have maybe spent most or a lot of their life on benefits and are used to a very different hand to mouth existence. Indeed, you can see the difficulty of the first month this comes in, with people going from payments throughout a period to, say, at the end of the month. What we don't want them all going to is loan sharks, even in that first month. Getting people just through the early stages is going to be very difficult.

There are financial consequences for local authorities, because we will, no doubt, with CAB and others—credit unions—be wanting to help and offer that sort of training and those sorts of courses for those we can encourage to take them up, but there are financial implications. We are supposed to be covered by the new burden assurance and we will be pushing hard to make sure that some of the inevitable costs that come through from trying to help Government to make this work are covered, so that we can do that work without putting a burden on the rest of our pressured services.

Gavin Smart: I would agree with a lot of that. There is also a particular pressure on people claiming for the first time and having to wait for a month until their first payment comes through. I think that needs consideration. There is also a point that people are moving into work—particularly low-paid work—where they may still be eligible for benefit, but their benefit amount will be reduced and they will have to wait for a month for that to come through. We would certainly say that, under the current system, there is a system of extended payments to ease the transition into work, and we are not convinced that removing that system is a good idea.

Q15 Karen Bradley: Mr Challis, do you want to add anything?

Pete Challis: I don't think I have anything specific to add to that.

Q16 Karen Bradley: One of the things that have been pointed out is that local authorities have schemes at the moment that help people; for example, prepaid cards. What could the Government learn from your experiences in local authorities?

Catherine West: One system that we have introduced just very recently is, every time we sign up a new tenant in council housing, to give them a credit union account. Even though they may not know what it is at the time, at least, by putting £2 into it, it opens it. Obviously, this is also to deal with loan sharks, who are very prevalent on the high street in most areas. Mostly they target areas where people are on benefits, obviously. This may be something that could be suggested to all housing associations, so that at least people, firstly, have an account and, secondly, then have access to loans. I think people are going to get into really serious amounts of debts, because people who have never, ever paid tax before will suddenly start having to pay council tax, and I just think people are not going to be able to pay it. I think we are going to get into a poll tax situation, which is going to be really uncomfortable.

Sir Merrick Cockell: Places like Birmingham are already looking at an intensive first 12 weeks package for their residents. Lewisham, I think, has already got an emergency loan system in place. We have talked about prepaid cards. I guess it will be a variety of responses in local areas. But, if I make a general statement, historically the relationship between DWP and local government has been, shall we put it politely, tense.

Catherine West: Strained.

Sir Merrick Cockell: Strained. It is not the Department that we have quoted as going necessarily in the same direction that we are going. I am pleased to say that there have been, quite recently, real changes in DWP's approach and a realisation that, frankly, unless local authorities and their partners in local areas are there, this is not going to work and we are essential to helping to make it work for the most difficult group. The easiest group will, of course, easily go online, do it all, and it will be a doddle, and they will make up whatever percentage, hopefully somewhere approaching 50%. But we know the difficult ones will come to us: the people who, frankly, naturally have trusted face to face and who know individuals. The message to DWP is, "The more you work closely with us, not just at the beginning but through the next years, and are willing to learn and see how we can co-operate together, the more chance there will be that this will actually end up working in a few years' time."

Q17 Karen Bradley: Presumably, that can be done through the pilots, to some extent.
Sir Merrick Cockell: Yes, the pilots—we are very pleased that that idea was accepted and that there is a decent sized group. The rest of local government will try to learn from that, but Government and DWP must be looking very carefully at the responses coming through and be prepared to adapt and to give financial assistance when that is clearly necessary to local authorities.

Q18 Chair: Will credit unions be able to help with regard to helping with the initial financial management for individuals?
Sir Merrick Cockell: Where there are credit unions, they will be absolutely key to it, including, in that first month period, ensuring people do not go into unnecessary debt just as the system comes in.

Q19 Teresa Pearce: Sir Merrick and Catherine, there are a lot of costs falling on local authorities here for changes in IT systems and for staffing one-stop shops and help services. In terms of the cut in council tax benefit, which most councils are passing on to people of working age, has there been any cost analysis of how much it is going to cost local authorities to chase that debt? Lots of people are not going to pay it. Is that going to be significant?
Catherine West: I think the whole administration of it is going to be significant because, first of all, we have to consult on it. We have already sent a letter out—most of us—to say that this is likely to happen once it gets Royal Assent. Secondly, a consultation is always expensive. Thirdly is the relationship between us and councils taking over the Social Fund, and how that is being interpreted. Some councils want to interpret that in quite a holistic way, so that, for families or individuals who have long-term problems and who are already known to the local authority, it is part of a package of assistance to get some longer-term solutions, whereas, as you know, under the DWP system, it is a little bit ad hoc. Some other councils, I think, are simply going to contract that out immediately to a charity. Everyone is doing something different, which is something we always ask for—localism—but I think, in this particular regard, there really will be a postcode lottery.
To return to the point of the public perception, what has been good about a lot of Government policy is trying to bring out of taxation the people who are on £10,000 a year and so on, and that has really made some strides, but the council tax benefit decision is just reversing all that, because it is making people, for the first time ever, have to pay council tax. There are a lot of contradictions in the policy, so the people at the bottom will be coming to us with questions like, "We thought we were being taken out of tax", and now they are having to pay tax because not having council tax benefit is like paying council tax for the first time. Different councils are going to interpret this differently, and I think that is going to be quite challenging for some councils who may not necessarily be prepared.
There also cost implications for having what would have to be quite well thought-out policies in quite a short period of time, when, actually, what we are doing is shedding staff. We are still in the middle of a three-year haircut in local government. Most people had the first year, 2010–11, where they lost a lot of staff, but some of the other changes around staff losses have been, basically, brought in over a three-year period. We are still in the process of that. We have to remember that we have not done the cuts to local government yet. We are still getting ourselves to the 29% cut, which we were given in 2010. It is all just going to add up.
Chair: I am going to move on, because obviously time is moving and we started to touch on the impact on local authorities anyway.

Q20 Glenda Jackson: Following on from what Teresa said, it is going to be the most vulnerable households that are going to bear the brunt. How can local authorities attempt to protect those most vulnerable households? Are there any plans in place? Do you know how many households there will be?
Catherine West: We think, for council tax benefit in just one borough, 20,000, but we think, for the whole benefit reforms, it is going to be 19 million people, so even in constituencies where people think there won't be many people affected—19 million covers quite a lot of the population.

Q21 Glenda Jackson: But is that looking exclusively at the changes to council tax benefit?
Catherine West: That is the whole of the benefits. Don't forget that working tax credits are included in the whole of the changes. That is why the number is so high. In terms of the council tax benefit, it is 20,000 people in our local authority area, but I could give you the figure across the country for that. It is quite a high number of people who, up until now, just really have not had to engage with council tax at all and now, suddenly, may have to pay up to £190 a year for their council tax.

Q22 Glenda Jackson: Presumably, that is a floating figure. There will be other households that will come into that.
Catherine West: That is right. As we know, not just people on full benefit get council tax benefit. It is tapered, isn't it? If you are in a high-value area, like London, and you are in a low-wage environment, like London, you often have to have this step up to help pay other things. Even people who are in work will be affected by this council tax, so their liability will increase.

Q23 Glenda Jackson: What is the gap as far as the local authority is concerned? In fact, I don't mean "gap".

Catherine West: Cut. Our cut is £2.9 million, just in our local authority, and you will have the total on the top of your head, I am sure, Merrick.
Pete Challis: £490 million across the country.
Sir Merrick Cockell: On council tax benefit. It is half a billion pounds.

Q24 Glenda Jackson: Half a billion pounds taken away from local authorities.
Sir Merrick Cockell: Yes, but there will be variability in how this is handled at a local level. Some authorities are not going to pass it; they will just, frankly, swallow their bit of the half a billion pounds. Overall, for local government, we want council tax benefit to be localised; we think that is right. We can even cope with a 10% cut. Cross party, our position is that we could do that, but we need the flexibility to be able to work it out in our areas, in the best way. The Government's decision to protect particular groups means that the pressure is just on, frankly, those who can least afford it, and particularly those who are just hanging on in work, the last people that we would want to force out of work again. It is that flexibility that is the key to it.
Were Government to rethink this, they could see that local government is and has been pretty good, with the substantial reductions in grants, at being able to sort this out. We have been consulting and talking with the local community and the voluntary sector, and with all our partners—finding out a way that suits Islington, or Kensington and Chelsea, or Worcestershire, or wherever your constituencies are—in a sensible, grown-up way. In some places, it will mean that well-off pensioners might well be having to pay more in order to protect those who are less well off. That is the real difficulty we have and that is where the variability will come in, if it carries on and goes through final assent, as it currently is. Some authorities will simply take it on the chin and others will pass it through, as Government is intending.

Q25 Chair: All this is going to make it virtually impossible for the Universal Credit to get its tapers right to make sure that people are always better off in work, because they won't know what they are paying in terms of council tax.
Sir Merrick Cockell: I think there is some evidence.
Gavin Smart: It is very difficult to get to the bottom of this at the moment, because DWP have not yet released the information on what the allowances are. But if you assume the allowances look like the allowances under the current system and you try to factor in council tax changes as well, if you take the example of a two-person household with two children, working in a lower-wage job, there is a risk that people on incomes below about £290 a week will be worse off under the new system than under the old system. We would very much like DWP to produce their own numbers, to be clear about what the allowances are, and to tell us, because, of course, we are trying to model based upon a number of assumptions, but it is a concern.

Q26 Chair: Do you understand that that group will be protected? We have been told more than once that nobody will be, in cash terms, worse off.
Gavin Smart: We understand that assurance. In our submission, we said our modelling leads us to be concerned about that assurance, and we would very much like to see DWP's own analysis of how this is going to pan out.

Q27 Chair: Because DWP won't necessarily know—they won't know—what the person is paying in council tax, so I presume there will be no field in the online claim form that actually says how much you are paying in council tax and that will be taken into account.
Pete Challis: We don't understand that there will be protection in relation to the reduction in council tax.

Q28 Chair: So they might not be?
Pete Challis: We don't think they will be protected in relation to the changes that impact on council tax and, in the evidence that we have submitted to the Committee, we have looked at the published schemes of more than 20 local authorities. What most authorities are doing is continuing to use the existing council tax benefit system but only applying it to a percentage of the charge. For example, they may say, "We will do the council tax benefit calculation, but only on 80% of the bill," so you have to pick up the 20% anyway and, if you are a working household—and there are 800,000 of those—not only will you pick up the 20% but the only assistance you get will be on the 80%. We have calculated that that will completely wipe out, in most cases that we have looked at, any gain that people make in their personal tax allowance in April.

Q29 Chair: That undermines a lot of the principle of Universal Credit.
Pete Challis: Entirely, and that is what the Surrey leaders said in their letter to the LGA. They said, "We think what was 10% looks like being 20–25%".

Q30 Chair: What do you suggest would be the solution? Would that be that, although council tax is not going to be part of Universal Credit, the calculation of council tax should figure somewhere in the calculation of what someone gets in terms of Universal Credit? In other words, they need to change the online form.
Pete Challis: That would be one option.
Gavin Smart: Or amendments in the detail of the design, so that you can understand that the detail of how Universal Credit operates takes account of the way in which council tax is going to operate.
Sir Merrick Cockell: Yes, and the more you spread the burden of a reduction in council tax benefit, the smaller the impact on anyone, I suppose, is part of that solution as well. The aim we have been having is to spread as widely so it ends up at pretty small amounts.

Q31 Glenda Jackson: Are you saying that you would prefer to see everyone who, at the moment,

qualifies for council tax benefit being part of this scheme?
Sir Merrick Cockell: I am saying everyone in the community.

Q32 Glenda Jackson: I mean that they should all see a reduction.
Sir Merrick Cockell: All our residents who are paying council tax, or as wide a group as we could get, would take a share of that 10% cut, so that the consequences on any single individual or any single family were dissipated, really.

Q33 Chair: But can you do that if there is a freeze on council tax?
Sir Merrick Cockell: Yes. There are lots of things we are doing within a freeze on council tax, just by working together and becoming more efficient and all those things, but the local government view is that it would be better that than to put sometimes quite great burdens on people who are least equipped to be able to cope.
Pete Challis: Chair, there is an issue about the financial efficiency of what appears to be happening. We read the reports that are going to council cabinets up and down the country, and finance officers are repeatedly saying, "This is going to be difficult to collect." There is one authority that we are aware of, where the finance officer is going to assume that they collect 35p of every pound that they are now going to charge to people who previously were not paying.

Q34 Glenda Jackson: What reasons do they give?
Pete Challis: Because you are seeking to get money from people who do not have it when times are very hard. Their collection costs will go up, we will see an increased use of bailiffs and, eventually, we will see cases in the courts, where councils are seeking to recover very small sums of money.

Q35 Glenda Jackson: Have they put any figure on their costs?
Pete Challis: They are building it into their bad debt provision, and in the course of that calculation, they are assuming they will recover 35%.

Q36 Chair: Can I just be clear on what you are perhaps implying, Sir Merrick? You said that the Government has interfered by setting parameters of who has to continue to get their discounts, like pensioners, so the burden is falling on those who are least able to pay. If the Government removed those restrictions and said to local councils, "You take your 10% cuts, you now administer it, you do what is best in your area," and, if you decide that, actually, there are quite a lot of pensioners who could absorb some of that extra cost, would you be much happier with that?
Sir Merrick Cockell: Absolutely, and I think that is across the country and across all parties. However, Government can also say, frankly, "You take the blame. If we are giving you that flexibility and you get it wrong, local people will deal with that through the ballot box." In my borough, we have lots of second homes. That is where we will go out, and half the 10% will come from people who are clearly more likely to be able to afford it, but let us sort it out in our own ways.

Q37 Stephen Lloyd: If that seems so patently logical, what is the DWP's line to that suggestion at the minute? Are they just being completely resistant? If they are, why? Because it does seem to me completely rational.
Sir Merrick Cockell: The second homes or just the flexibility?
Stephen Lloyd: No, the flexibility seems perfectly sensible.
Sir Merrick Cockell: We are into the silos of Government here, so it is not a DWP decision. This comes under the Treasury and the Department for Communities and Local Government (DCLG), so it is not a problem on their desk; it is a problem on Eric Pickles's desk. His past team and he are very familiar and have heard it face-to-face from the LGA in a succession of meetings.

Q38 Stephen Lloyd: What argument do they promulgate that says, "No, we cannot give you that flexibility"? Because it does seem to me eminently sensible. Why is it not just happening?
Sir Merrick Cockell: I will ask a colleague from a different party to respond to that.
Catherine West: I think it goes back to the fears over the granny tax furore. We have to join up our debate about benefits with our debate about taxation, don't we? Actually, if this is all coming in at the beginning of the financial year or in the wash, clearly some people will feel, "Why am I paying council tax for the first time when other people are having a tax cut?" and "Why are some people who happen to be in an older age category, even though they are doing very well, exempt from paying this council tax but I am working and bringing up three children on a low income?"

Q39 Stephen Lloyd: My advice is, if you want it to work, don't sell it as a partisan thing like that, because you won't have a prayer. My advice is: sell it in a way that you are all talking about, which is that it would be easier for the council to have that flexibility on council tax. If you go in and tell George Osborne and the rest a sort of partisan tax thing, Catherine, you are completely wasting your time and mine as well.
Catherine West: I let Merrick do all the negotiations with Mr Osborne.

Q40 Stephen Lloyd: I agree with the sheer salient point that you are making, Merrick. If councils across the land of whatever party persuasion had that flexibility, there would be much more manageable ways to actually make this work. Why do you think the Government are resistant?
Sir Merrick Cockell: I think, frankly, they got boxed in, at the early stages, by fears that particular groups would be targeted, that local government would go for easy targets and that, therefore, it would be a granny tax. Actually, it should not matter to Treasury.

Q41 Stephen Lloyd: No, because it is the councils' responsibility.

Sir Merrick Cockell: Also, the half billion pounds have gone. This is not an argument about whether half a billion should come out; it has been taken into account in the Government budgets. One way or another, that half billion pounds is coming out of local government, whether it is a top slice or whether it is through council tax benefit. Therefore, this argument we have been having, indeed, about the software—can we make the system actually work, and could we defer it for six months or a year?—actually is irrelevant because the money has already been taken from local government. If that is the case, that reinforces the "Let us get on with it". I know the Lords, in debate there, have focused very fully on this area, because they have seen—and I don't know whether you are seeing, as Members of Parliament, through your postbag—the human implications of this. This has the capacity to go pretty badly wrong with a lot of very difficult human cases behind it, and there is not a painless way but a sensible way through it that will allow circumstances in local areas to decide and, indeed, for arrangements to be made at a local level.

Q42 Chair: This will be an argument you will continue to have with the Department for Communities and Local Government.
Sir Merrick Cockell: With anyone who will listen.

Q43 Stephen Lloyd: The other prickly issue is housing costs. In your own views, what are the risks associated with moving to a system of paying housing costs direct to tenants?
Gavin Smart: There are risks because of, I think, some of the financial capability discussions we have already had: that you are moving from a group of people who are used to seeing their benefit paid direct to their landlord to receiving the benefit direct to them and then having to pay it. We know that DWP is doing a lot of work through the demonstration pilots to look at how you would make this work. The early results from those demonstration projects are encouraging in the sense that landlords are managing to make it work, but it requires a huge amount of additional effort. The concerns are, once it is rolled out across all landlords, what does that do to the level of arrears, to the level of bad debts, and how does that knock on in terms of things like the confidence that the funders to those landlords have about their ability to meet their existing obligations and to borrow new funds? It is a major, major change and it is one that the housing sector has been very concerned about. We understand that Government have, if you like, settled their mind on this issue. It is now about making it work and it also about monitoring the consequences.
Sir Merrick Cockell: I think I would agree with that. Bad debt is not something we have been used to, and the implications on borrowing and on future home building—on being able to show a balance sheet that you can borrow against, that basically does not have bad debt in are—are of real importance. There must be a high risk of substantial bad debt. However much we may want people to, as I said before, stand on their own feet and be responsible for their families, we know that the realities of this mean it will be difficult to get some of that money that will be owed.

Q44 Stephen Lloyd: Presumably, for the private sector landlord, it will be even worse.
Sir Merrick Cockell: Yes, and they will pull out, won't they?

Q45 Stephen Lloyd: Catherine, let us see what your comments are around this. I had a constituent a wee while ago, last Christmas, and she received, I think, £650 in early December to pay the rent. She had three children and no money, so she promptly spent the money on buying presents and what have you for the children, which I don't think is unreasonable when it comes to Christmas. Would you say that that is something that will probably go up or down if it becomes even harder for payments to be made direct to landlords?
Catherine West: That is right. This is where we come back to the question of having the credit union in at an early stage, so that, when you are signing up tenancies, you are signing up into the credit union system, because it is a safe loan system as well. However, I think it is going to be a question of affordability, particularly in high-value areas, where we know that the cost of living is very high, yet there are a lot of people who will be in this situation and some of the difficulties that that will lead to. I know that the one thing that housing providers have said to us as council leaders is, "Please can you make the case that, even though, in theory, it might sound like a good idea to give people more of an opportunity to learn budgeting, there are administrative difficulties around arrears, just sending out more letters, having to get people to visit and then, eventually, eviction."
I think that councils will maintain some sort of a housing duty; some, obviously, will then just say, "You have been evicted so you will have to go and find another property in the private sector." Other councils may wish to interpret that in a slightly more generous way for the benefit of the children, because there are Children Act implications as well. However, that is also a cost to the council in that they have to re-interview families, re-house them in other accommodation and so on. There is a loop there, which is really unhelpful. We have got to a good point in local government where people understand they do have to pay their rent. However, by changing the system in this way, it is leading to a greater fragility in people's ability to budget, and then to homelessness in the end. We will see more cases of homelessness.

Q46 Stephen Lloyd: Back to what Merrick was talking about, flexibility, in the previous area, the Government say that it will be clear, under exceptional circumstances, that councils can choose to shift or to ensure that the money goes to the landlord. Is your view that their "exceptional" is too exceptional, and there should be, again, more flexibility, to allow either DWP or, more likely, the local authority to decide who receives the money? In other words, is that "exceptional" too exceptional?
Gavin Smart: Our concern here would be that, at the moment, DWP's position is, "For vulnerable people,

we will be happy to see direct payments kept or reinstated."

Q47 Chair: Have they defined "vulnerable"?
Gavin Smart: No, they have not yet defined vulnerable, so that is a concern. We would also have a particular concern, in particular parts of the country, in terms of values, about particular forms of accommodation, and particularly some supported accommodation. Where you are dealing with people who may have very chaotic lifestyles, who may stay for very short periods of time, paying the benefit direct to those tenants in particular makes it extremely difficult for the landlord to be confident that they will receive the rent. I think you would want to explore whether or not the most simple proposition here would be to say that people in supported housing are vulnerable by definition, and benefit is paid direct.
Chair: That would certainly please the Foyer in my constituency. They were very worried about the original proposals.

Q48 Glenda Jackson: Increasingly, local authorities have to advise people to look for housing in the private sector. Do you have any idea what the knock-on effect is going to be with private landlords, who are already reluctant to take people on housing benefit?
Catherine West: We know that, particularly in your constituency, Glenda, the private rental sector is just too hot to touch—there is no availability at all for people who are on benefit. Really, local authorities have to broker that, to some degree, for many, many cases. The more people get evicted, the more they go round that loop. If we can get a broader definition or allow us to make up what we think is "vulnerable", that would really help at least to try to protect people from getting into that loop of homelessness.

Q49 Glenda Jackson: Essentially, what I am trying to get down to here is whether you think that, if the rent was paid directly to the landlord in the private sector, that could help reduce the reluctance of private landlords to actually rent to claimants?
Catherine West: Yes, I do.
Gavin Smart: I agree. I think that is what you would imagine. Actually, this goes to another point that would be worth noticing. Because this is a UK-wide policy, it impacts differently in different places, and that needs further attention. For instance, in Northern Ireland, we think there are 60,000 private landlords who currently receive payment of housing benefit direct—about £250 million a year. That system will not continue into the future. We will be concerned about what that means for the provision of private rented accommodation for people on benefit in Northern Ireland, but that is really just an example of why it is important to pay attention to the UK-wide nature of the policy.

Q50 Stephen Lloyd: I have had a very definite representation from representatives of private landlords that, if there was that flexibility that would allow the payment to be made directly to them, it would be a lot easier for them to match the housing benefit cap. Would you agree broadly with that principle?
Gavin Smart: I can understand why they would say it. Any landlord particularly prefers certainty of income, and you would trade certainty of income for an element of rent. I can see that.

Q51 Harriett Baldwin: Could I just specifically ask the CIH (Chartered Institute of Housing) about whether you have done any work on supply of premises—the willingness of landlords to supply properties in the private sector as a result of this change?
Gavin Smart: Not specifically—not to this level of detail.

Q52 Harriett Baldwin: Would you consider doing a bit of research on that?
Gavin Smart: We would certainly consider it. I think it is something we would want to do alongside the other private landlord bodies, because they have access to private landlords.

Q53 Harriett Baldwin: Are you aware that any of them have done any work on this at the moment?
Gavin Smart: I am not aware, but that could just be my memory.

Q54 Stephen Lloyd: Could I quickly get on to having benefit capped? There are only a few minutes left. I am not going to ask you if you think it is a good idea, because we don't have time for that and we would go round in circles. What I would be really interested in, with the people we have here, is: what amendments would you like to see to the Regulations for administering the cap, for example in relation to temporary accommodation? Have you any specific recommendations to tell us, the Committee, about what amendments would actually make it better, whether we like it or not, if you know what I mean, in principle?
Catherine West: On the question of the budget and some of the transitional arrangements, if we can have a bit more flexibility about what we define as a transition period, because we know that these tapering arrangements sometimes really do end up just landing then on local authorities. At the moment, there is some provision that there will be some allocation of budget to help with differences in the housing benefit allocation—obviously, a big issue for high-value areas like ours. If there could be some flexibility around the transitional arrangements, so that not everything is locked down immediately, I also think that would be wise in terms of fallout from any other benefit changes at the same time, so that we have a bit of a sense that there may be a pot to call on. At the moment, it does feel as though local authorities will be made to carry this burden for much longer when, actually, perhaps it is not really local authorities' fault, if you know what I mean. Perhaps just having a bit of an understanding of the length of period because, sometimes also, with these allocations, they are just very much in one financial year and you don't really know that you will need it until halfway through the financial year. If the spending could just be stretched over a period, that

would be very helpful, because I think the transitional arrangements are essential.

Sir Merrick Cockell: I am advised, in the Local Government Finance Bill, that there is an amendment seeking flexibility, certainly on council tax benefit, but I think, as Catherine has said, that flexibility on the cap, on the transition, just would make things—

Stephen Lloyd: A lot easier.

Sir Merrick Cockell: Yes. I would want to make sure that we are not just giving you a London perspective.

Chair: To be fair, it probably impacts more on London.

Sir Merrick Cockell: Yes, exactly. It is more intense with us than anywhere else.

Q55 Glenda Jackson: Where would the money come from?

Catherine West: This is the idea of the transitional payment. There is a public consultation about Discretionary Housing Payments currently. It just finished at the end of last month. I will leave you this: this is our local council response to that, just saying, "Please, don't just say there is one little lump sum for a very short period of time that we can call on if needed. If we could just stretch out that allocation for a longer period, we can wait until all the changes come in, so that we can try to line up." We have written to everyone who is affected by the local housing benefit cap, and hardly anyone has come back because we have said, "Next April, you will be affected," and they just think, "Oh, worry about that later."

Stephen Lloyd: Yes, it is human nature.

Catherine West: Whereas we are really, really anxious about how that is going to affect people.

Q56 Glenda Jackson: There is £100 million that the Government has said is there, which is going to run for a year, which is why I said, "Where is the money coming from?"

Catherine West: If we could have that stretched out, that would be really helpful.

Stephen Lloyd: But that wouldn't just be London, I would have thought—Manchester and some of the bigger cities.

Glenda Jackson: That is a national amount.

Stephen Lloyd: I wouldn't mind a copy, certainly for myself and possibly for the Committee, of that. I am sure it gets a lot of the headline ideas.

Gavin Smart: Just one quick point on supported accommodation: looking at the Universal Credit regulations as they are currently drafted, they do not appear any more to have this category of exempt accommodation, which is where, previously, particular kinds of accommodation—and particularly supported accommodation—were exempt from referral to the rent officer. We think that might be an oversight, but it has caused us some concern and it needs to be reinstated.

Q57 Chair: Does that include women's refuges? Women's refuges have been campaigning.

Gavin Smart: That is one of the points that they would be concerned about, yes. We think, from DWP officials, that they do not necessarily intend to change the way the system operates. It is just about getting the Regulations right. As currently drafted, however, the Regulations do not appear to recognise this category of accommodation.

Q58 Chair: That is where accommodation has a service charge attached to it and they will get their housing benefit for the accommodation but not for the service charge. But these are vulnerable people.

Gavin Smart: It may also have a higher rent because of the nature of the client group that you are working with. Historically, what has been allowed to happen is for those properties not to be subject to referral to the rent officer, because it is recognised that there are particular categories of properties providing a particular sort of service.

Q59 Stephen Lloyd: Pete, anything to add?

Pete Challis: Nothing to add to that.

Q60 Teresa Pearce: I will try to be quick. Firstly, we have had a lot of evidence on Universal Credit, and we agree on the policy, to a certain extent, but it is the implementation that is really worrying us. This late in the day, to still have uncertainty about what certain terms mean and how things are going to work, is that a real worry?

Gavin Smart: Yes, it is. One of the points that I wanted to raise today was that I think, generally, we are concerned that the amount of information from DWP is insufficient to allow all sorts of different groups of people to prepare for the implementation of the policy, be that tenants or landlords or, actually, the prepaid card organisations, who need more information. We would want to say to DWP, "You need to do more to communicate more clearly and, even if you cannot give certainty now, give people a point of time at which you will be able to give an answer", because then they can start to prepare.

Q61 Teresa Pearce: I think it was in your written evidence, Gavin, you suggested that costs arising from the transition to Universal Credit might fall on other bodies. Which other bodies did you have in mind, and do you have a number?

Gavin Smart: I don't have a number but, for instance, if you look at the demonstration projects for direct payments, it is quite clear that the landlords in those areas are ramping up things like the amount of financial inclusion and the amount of advice and support that they give to tenants and residents. That is a cost that they are absorbing that will not come back through the benefits system.

Q62 Teresa Pearce: So you think housing associations and organisations like that.

Gavin Smart: And local authorities.

Q63 Teresa Pearce: The Pathfinder pilots begin in October 2013. What are the likely consequences to come out of that, do you think? Do you think there will be any changes after that? Do you think there is sufficient time to learn the lessons from those Pathfinders before everybody is into the system?

Gavin Smart: I don't know what will come out of them, but I think you are right: there is a risk around time. To run the pilots for long enough to gather some data, to understand what it means and then to understand what the changes ought to be, it looks very tight.

Q64 Teresa Pearce: At the moment, there are so many unknowns. If the Pathfinder does anything, it will find some of those unknowns, but will there be time to actually implement?
Gavin Smart: I am not sure there will, and we would like to see a clearer statement from DWP about the relationship between the direct payment pathfinders, the pilot pathfinders that you are referring to, and the design of the policy, so one can see how the findings from those things feed through into policy change.

Q65 Teresa Pearce: We have talked a lot about the responsibilities falling on local authorities. Are there any realistic estimates of the additional cost to local authorities for the transition to Universal Credit and, if there is, have you got any undertakings from the DWP about the sharing of those costs or do they fall solely on local authorities?
Sir Merrick Cockell: Part of the problem is—
Teresa Pearce: You don't know.
Sir Merrick Cockell: We don't know, and the costs will only be clear as the process is going through; therefore, the new burdens doctrine/policy should kick in here. But what we do not want is a decision to be taken now on what that might mean and that is the end of the story. We want to work with DWP and others as we go through to evaluate what the real impact is as it goes along, because, as we have been hearing, so much of this is unintended consequences of changes, where the motivation behind it was right and it all seems to make sense, but, as we have found out, particular people might well be receiving less than they have done, whatever assurances have been given. It has to be evolving, and the legitimate cost implications to local authorities must be worked out over the implementation period, rather than a figure be plucked out and allocated under new burdens.

Q66 Teresa Pearce: Is there one thing each of you thinks is a key risk in the implementation, or the main risk?
Catherine West: The main risk is around the complexity of that many different forms of benefit in one project.
Teresa Pearce: All at the same time.
Catherine West: Because at least if one element of someone's benefit stops, or there is a problem with it—and people's circumstances change all the time—even though the principle behind Universal Credit is to flatten that, and we agree with that principle, in actual fact I think it is going to be quite difficult to do all of that on a day one-type arrangement, because my experience of computers is that they can sometimes let you down; letting 19 million people down is another thing, so the potential for a problem is quite high. If you marry that up with the council tax benefit, which is being administered separately, and the fact that they are tending to be targeted at the same income groups all the time, then I think we have big costs for local authorities trying to pick up homelessness and other problems, and also a lack of provision across the country around the Social Fund—some councils are going to be quite good at this, because they are used to dealing with lots of problems—and shift in population as well. It is not just councils; it will be schools.
Teresa Pearce: There is not one single key risk. It is all risky.
Catherine West: Schools and PCTs[1].

Q67 Glenda Jackson: Also, the fact that you have all lost so much staff, so there is a time element in this as well, isn't there?
Catherine West: Yes.
Glenda Jackson: When the problems come up, there is going to be a time lapse before someone can help someone to solve it.
Catherine West: That is right.
Pete Challis: You have risks that Real-Time Information won't deliver.
Glenda Jackson: Exactly.
Pete Challis: You have risks with the DWP's own computer development, which is being done on the basis of agile computer systems, and we know the history: agile was what was tried in the NHS computer system, which was eventually abandoned. You have risks with the identity assurance protocols and the identity assurance providers, and whether or not that is going to work. But the biggest risk is that the whole thing is being designed without having put in place in every local authority the arrangements for what happens where people cannot get answers to the legitimate questions that will arise as they are seeking to try to make their claim, whether that is to do with the process, whether it is to do with the verification and the documentation. We need to have that integrated model, and we have the staff to do it.

Q68 Glenda Jackson: You have got the staff to do it?
Pete Challis: They exist in local authorities now. It is a question of integrating them.
Gavin Smart: I would take a slightly different tack and say that this is why having proper monitoring and understanding in place is so important, because, as other speakers have said, with such a massive array of changes all happening at once, you need to be monitoring what is happening to the way the system is working and to the consequences it is producing, to try to understand whether or not it is doing what you thought it would do and, if it is not, how you need to make changes to it. We need to see greater certainty around the amount of monitoring that DWP intend to put in place, how they will evaluate it and how they will then feed that back into policy design and policy change.
Sir Merrick Cockell: Local government is quite used to picking up the pieces and sorting out problems just through what we do, but history tells us that all-singing, all-dancing new online systems, if they go wrong or are found to be open to relatively easy fraud

[1] Primary Care Trusts

or something like that, people lose any confidence in them. So around IT is the big risk.

Q69 Chair: That was why they had to shut down the child care tax credits online, because there was huge fraud.

Can I thank you very much? Unless there was anything else that you came along today burning to say and we have not asked a question that has allowed you to say it, I think you have been very imaginative in how you have managed to get most of the things you wanted to say in via the questions we asked. I meant that as a compliment, by the way.

Pete Challis: Would you be happy for us to send you some additional material?

Chair: Absolutely. Any more information, particularly in terms of hard figures as well about the costs, would be extremely useful, because there is obviously an issue about the cost-sharing and the burden of implementation. The other thing that we are looking at is what the dangers are. You have articulated that very well, but what are the risks? I think our Report will be: what does Government need to do now and address now to make sure that there is a smooth implementation of the Universal Credit?

Can I just say thank you very much. I will need you to move, unfortunately, very quickly, as we have a second panel to come in now, but thanks very much for coming in this morning.

Examination of Witnesses

Witnesses: **Professor Mike Brewer**, Research Fellow, and **James Browne**, Senior Research Economist, Institute for Fiscal Studies, **Tony Wilson**, Director of Policy and Research, Centre for Economic and Social Inclusion, and **Fran Bennett**, Women's Budget Group, gave evidence.

Q70 Chair: Can I say welcome to you all? Can I ask, perhaps starting with you, Tony, if you could very quickly introduce yourself and your organisation?

Tony Wilson: My name is Tony Wilson. I am a Director at the Centre for Economic and Social Inclusion. We are a centre that delivers research, analysis, policy, events and various other things around welfare to work, employment, skills and welfare reform.

Fran Bennett: My name is Fran Bennett. I am a Senior Research Fellow at the University of Oxford but I am here on behalf of the Women's Budget Group in particular, which is a group that does gender analysis of budgets and spending. I will also be drawing on my wider personal and academic experience.

James Browne: I am James Browne. I am a Senior Research Economist in the Direct Tax and Welfare sector at the Institute for Fiscal Studies (IFS).

Professor Brewer: I am Mike Brewer from the University of Essex and a Research Fellow at the IFS.

Q71 Chair: You are welcome. I think you were all sitting in for our first evidence session, so we will try not to repeat those questions, because, obviously, one of the issues about Universal Credit is it is such a wide-ranging benefit that is going to cover so many different aspects. That, for us as a Committee, is quite difficult to get a handle on as well, because there are so many things to it. Perhaps I can address the first question to Fran. The Government has said that Universal Credit is going to be paid monthly, with only very limited exceptions. I understand that you believe that claimants should have a choice of more frequent payments. Why?

Fran Bennett: Yes. This is partly because lots of things are happening at once. It is a kind of multiple whammy for claimants that we heard something about in the first session. Claimants budget less than monthly, commonly, because they are living on a low income, not necessarily because of weekly benefit frequencies or because they are bad budgeters, but because they want to keep control over their low incomes. It will, therefore, make things much more difficult for them if they are losing the labelling of payments that we have at the moment, the payment to different people within the couple that we have at the moment, and not just those but the more frequent payments that we have at the moment.

This is not just something for people out of work, as tends to be suggested in some of the debates; it is actually people in work as well, because if you are on tax credits in work, you can choose to be paid weekly. Of course, if you are in low-paid occupations in particular, you are more likely to be paid weekly; for example, one in two under £10,000 a year is paid more frequently than monthly. It is not a typical experience to have a monthly budget of one payment for very many people in the kind of situations that Universal Credit will involve.

Q72 Chair: The Government's argument is that it wants to simplify the administration, and certainly monthly payments must simplify the administration, particularly if we are looking at Real-Time Information. Does the Government not have a point that this is actually saving taxpayers' money and, ultimately, we are more likely to get the calculation correct if it is monthly payments?

Fran Bennett: No, I think there are two issues. One is monthly assessment and one is monthly payment. The Government, during the debates around the Bill, acknowledged that payment more frequently would not, actually, be hugely more costly, and that the computer technology could deal with it. The Government wants to pay monthly because it believes that that is mimicking the situation in work, which, as I have said, I do not think, for a lot of people who are on Universal Credit, is actually the case, and because they want to change people's behaviour. I would argue that that is inappropriate for people who are on low incomes and choose to budget more frequently than monthly, and the Government should be facilitating the way in which people on benefits and in work on low incomes are more likely to budget their money successfully.

Q73 Chair: Can I ask the others whether you think that the Government will achieve its aim of simplifying the administration and thereby saving money?
Tony Wilson: I agree with everything that Fran said, and we made similar points in our submission. I would possibly go further and say that, actually, paying Universal Credit monthly could serve to undermine the incentive to work. We know that people on benefit budget more frequently than monthly; they budget weekly. We know that people in work on low incomes, even if they are paid monthly, budget more frequently. It is a consequence of being on a low income. Actually, moving to monthly payment increases the risk of claimants, for example, running up debt, having to rely on other ways to meet that debt, becoming less financially included, leading to less certainty, and potentially undermining their likelihood of going back to work. Of course, if your Universal Credit is only being paid monthly and your income is only being paid monthly, then that transition in and out of work does become less smooth. You have to wait longer for those payments to restart. I am not really clear that the Government achieves much, if anything, by moving to monthly payment. I think, at the very least, in the short term, we should be continuing with fortnightly payment and actually testing whether moving to monthly payment increases financial inclusion and increases the likelihood of moving back to work.

Q74 Chair: One of the witnesses in the last session—I cannot remember if it was the Local Government Association—said that perhaps the Government should look at carrying on the transitional run-ons that presently exist and that I think are due to stop under Universal Credit. Would you go along with that?
Tony Wilson: Benefit run-ons and so on, yes.
Chair: Benefit run-ons, yes, is the phrase.
Tony Wilson: The Government probably has a point here that that should become less necessary as a consequence of benefits being paid monthly. If I move into work, my next benefit payment will be much later on and act as a sort of run-on as well and, if I move out of work, then my last pay cheque acts as a run-on as well. There are some ways in which benefit run-ons should become less necessary because they, essentially, allow for the transition between in-work and out-of-work payment systems, and also in-work and out-of-work benefit systems. Of course, we are integrating that in Universal Credit. I would, however, say there is another important function that run-ons serve, which is actually to increase the cash incentive to work for some groups. I will make this point now and I will probably make it again later: I do think that the abolition of In Work Credit, Return to Work Credit and the Job Grant, which all provide additional cash support for long-term unemployed or disadvantaged people to move back to work—and that is going to happen at the same time as Universal Credit—I do not think really stands up to scrutiny. I think that there is a strong argument for continuing cash support and additional cash payments for some groups when they move into work.

Q75 Chair: When do those things stop?
Tony Wilson: They will stop, I believe, next year, so it may actually be well in advance of Universal Credit.

Q76 Chair: Yes, that was my understanding: they were going to stop for everybody next year but, of course, they will not migrate, necessarily, for some time.
Fran Bennett: Could I just come back, Chair, on your initial point about simplification and saving money? The point we were trying to make in our submission is, actually, that the way monthly budgeting is going to have to lead to exceptions is likely to undermine the successful introduction of Universal Credit and also be very costly, because the exceptions are going to have to be referred and then a decision is going to have to be made by a member of staff. They are then going to have to be monitored and reviewed because the Government only wants exceptions to be temporary. All of that is going to be incredibly labour-intensive, and I think it is much more likely, if the Government allows people the choice of whether they want to be paid monthly or more frequently, to be less costly than if they are operating a huge system of exceptional payments for people to be paid more frequently. The other option is if the exceptions are only very limited, then it is likely, I think, that lots of people are going to be applying for the advance payments of Universal Credit, which will replace the alignment crisis loans that are available at the moment. Again that will be a very labour-intensive process and will mean that people start off their Universal Credit lives in debt already.

Q77 Chair: But if Pete Challis from UNISON, from the last session, is right, it is going to be very difficult for people to become exceptional cases, because they will be caught in this telephone loop that keeps putting them back to the computer. If the Directgov website is anything to go by, you end up in a loop in it; it always brings you back to where you started.
Fran Bennett: Yes, I think he was talking about online claims rather than monthly payments. There may be exceptions for online claims but there are exceptions for monthly payments, for direct payment of housing benefit to landlords, and also for split payments between the two members of a couple. Those are the three main classes of exceptions that the Government is thinking about implementing.

Q78 Chair: I think my question is: how do they get to the DWP or Jobcentre Plus to say that they are an exception, if they are having to do everything online?
Fran Bennett: The referrals can either be directly from the DWP, apparently, from other agencies outside, or self-referral by claimants. We don't know very much about how the whole process is going to work yet. The other thing is that the Government is proposing that those people who are exceptions to

monthly payment will be given budgeting support. I think that there may be a misunderstanding that people are necessarily bad budgeters because they budget more frequently, but there is no indication yet about whether additional resources are going to be given for that budgeting support that is going to be available for people with exceptions.

Q79 Chair: What is the IFS view on monthly payments?

Professor Brewer: I agree very strongly with what Tony and Fran have said. This does not seem to me to be about simplification at all. It is not complicated to pay someone benefits weekly or fortnightly. It is no more complicated than paying it monthly. Your previous witnesses were talking about examples where they think that paying benefits monthly will lead to higher costs for them. Chair, you said paying benefits monthly might save the taxpayer money; I think it will probably cost the taxpayer money paying benefits monthly, because local authorities and organisations like that will be dealing with the people who cannot cope with monthly payments.

Fran Bennett: Could I just add two points? One is that direct debits are often very inflexible in terms of the date that they have to be paid. If people are being encouraged to take up direct debits and they only have a once-a-month payment, with all their eggs in one basket, then that may very well lead to real problems. The other issue from the Women's Budget Group point of view is that we fear that the pressure of having a monthly budget is likely to fall on women in particular, because women are the ones who usually have to do the more frequent payments for housekeeping and children and so on. If the emphasis of the Government's approach is towards monthly payments of bills in full, on time, if that is prioritised, no matter what the circumstances, then it is likely the pressures of that situation will fall on the mothers in particular, in low-income families with children, who do the more frequent purchases.

Q80 Chair: Can we look at the help for making an online claim? Where is that help going to come from? What support and advice do you think needs to be in place? Who should be delivering it and paying for it, in light of the previous session, to help maximise the number of people who can manage an online claim?

Tony Wilson: Certainly, in our view, it is the Government's responsibility to make sure that people are able to access the benefits to which they are entitled. I agree, actually, with the previous witnesses that the move to online claims has to be the right direction of travel. It is lower-cost, it will increasingly reflect the way that people manage their lives, and it should be more straightforward. Of course, the problem is, as others have said, that, actually, access to the internet declines with income. More disadvantaged people are less likely to access the internet; disabled people are less likely to access the internet. Currently, claims are very low: only about 20% of JSA claims are online. There has to be a responsibility on the Government to make sure that they have a digital inclusion strategy in place—that is critical—and they are doing a lot of work on that. That is welcome, but also, alongside that—

Q81 Stephen Lloyd: On that note, Tony, can I come in quite quickly? I accept all that you say. But that very group that has been stuck in benefit dependency for two, three or four generations now—we are talking about a lot of people—are often also not IT-literate. Philosophically do you then accept or not accept that it is a bit of a blunderbuss philosophical approach but, my God, we have tried everything else, we have to do this as well, and what we need to do is to somehow find a way of underpinning it so that those individuals or those families in that situation do not get completely hung out to dry? In very simple terms, is that really what you are saying?

Tony Wilson: I think that is right and it is exactly the point I was going to make. As well as having an inclusion strategy, the Government really needs to understand why it is that some groups are less able to access the internet, or less likely to use it for managing money, or are more likely to access it in some ways rather than others; for example, increasingly through smartphones rather than through fixed computers. It needs a much richer understanding of what the barriers are and then working to overcome them, because digital exclusion and social exclusion overlap very strongly and we should be trying to reduce both. It has to be a prerequisite of moving to payments online. Again, a similar point to the last one about monthly payments: we feel like we are potentially moving too far and too fast, and that maintaining the ability to opt in to telephone-based claims, at least for an interim transitional period, would be hugely beneficial. The risks around moving to a predominantly online service and really reducing the access and the channels people can access are quite significant. It is not necessary to do this all by 2013 or to an arbitrary deadline.

Fran Bennett: There were some concerns expressed, I think, in the user-centred design research that the Government did, about the clunkiness of the joint claims online process and the cumbersome nature of that. There were also some concerns about the fact that everything would be shared online, including decisions and including, apparently, decisions about where there would be split payments. There were some definite concerns amongst claimants about the online process for joint claims in particular.

Q82 Harriett Baldwin: I think it is quite easy to forget in all of this discussion of the implementation that the basic purpose of moving to Universal Credit is to try to improve incentives to work and make work pay for every hour of work that people choose to do. I just wanted to ask you the basic, obvious question: do you expect that Universal Credit will provide additional incentives for people to work?

James Browne: Yes, definitely. I think we have shown in our research that Universal Credit does strengthen the incentives for people to work, particularly for those people who have the weakest incentives to work at the moment, but it is not a universal improvement in work incentives. For some groups, the incentive is weaker.

Q83 Harriett Baldwin: Those are for the people who are already in work, though, aren't they? Which groups of people do the incentives weaken for?
James Browne: It is mainly for people who already have a partner in work. At the moment, Universal Credit gives a lot more support to single-earner couples, but then that support is withdrawn more quickly than it is under the current system. Another very important point to make here is that a lot of the strengthening of work incentives that Universal Credit is likely to bring about could be undermined by the decision to localise support for council tax to local authorities; the decisions they make are going to be very important in determining the extent to which work incentives really will be strengthened. A lot of the very high marginal deduction rates that we have at the moment come about because the tapers of lots of different benefits are overlapping and, if you still have these overlapping tapers, you could still have the very high marginal tax rates that Universal Credit was meant to get rid of.

Q84 Harriett Baldwin: My understanding, though, is that the council tax that people could be asked to pay—we heard from earlier evidence—could be as high as £190 a year. That leads me into the earnings disregard: do any of you have any guesstimate for us as to where you think the earnings disregards will be set?
Fran Bennett: No, except that the Government did produce examples. As I understand it, the earnings disregards were the elements that were changed in the formula, because of the council tax benefit localisation decision, and that is how I understand the Government said they were trying to cope with that: by increasing them a bit. The point I wanted to also add to this is that I am not quite sure how many people have yet taken on board the zero earnings rule for the support for mortgage interest. Support for mortgage interest, of course, is not going to be paid direct to claimants; it is going to be paid to lenders, in a reversal of the policy about financial responsibility. Leaving that aside, however, the Government has decided that there will be a zero earnings rule for support for mortgage interest. That is likely to hit particularly lone parents who have been left with the family home, paying the mortgage and currently have been able to get support for mortgage interest on income support in jobs up to 16 hours a week, until they went on to tax credits, which were more generous. Apparently, that is not going to be possible any more, and I think that is a real problem that has emerged in terms of work incentives.

Q85 Harriett Baldwin: I think I am also right in saying that mortgage interest support only kicks in when you have been on Jobseeker's Allowance for six months or more.
Fran Bennett: I think it is actually longer.
Harriett Baldwin: Is it nine months?
Fran Bennett: I think it is nine months.
Tony Wilson: It has been reduced during the recession. I am not actually sure what the default will be in the Universal Credit and the rates; I am not sure it has been specified, but the default is, I think, nine months.

Q86 Harriett Baldwin: That potentially still gets withdrawn linearly when you move into work, so it does not have the same impact as the overall Universal Credit. Am I right in my understanding?
Tony Wilson: It is a cliff edge. It is linked to your JSA or to your out-of-work benefits; when you lose entitlement to out-of-work benefit, you lose your entitlement to the support. Under Universal Credit, what happens is, as soon as you work any hours at all, which could be much less than that, you will lose your entitlement to support. For a small but significant group who have mortgage responsibilities and who want to take up mini-jobs, which is a huge and really important objective in Universal Credit, particularly for parents with caring responsibilities, that will be a big issue.

Q87 Harriett Baldwin: Do any of you have any estimates in terms of how many people might be affected by those two things?
Tony Wilson: I don't, and one thing I have looked quite extensively for is data on, for example, tax credit recipients who have mortgages and on the payment of support for mortgage interest to different groups. I do not know if others have but I have not found that data. One thing that we said in our evidence was that, actually, it is quite hard to make judgments about disregard policy and the level of disregards if the Government is not able to produce the data that would enable a judgment to be made. It is likely to be a small group but it is a small group for whom there will be a very large impact, so it is hard to make judgments about how to set policy without that evidence.
Fran Bennett: One thing which, again, people are only just realising the impact of is the monthly assessment period and the whole-month approach to changes of circumstances. The Government has clearly outlined this but, as I say, it is the first time I have fully realised, and I think it may be for other people as well. Although the Government wants people to be able to be very clear about the impact of their decisions about working on their Universal Credit income and, therefore, there is a single taper, actually, because changes of circumstance are all going to be bundled up together and only given in a decision letter, apparently, at the end of the month, and will all take effect for a whole month, then it seems to me that that muddies the waters in terms of people being able to see clearly the impact of increased earnings on their benefit, because there may be other changes of circumstances that are (a) muddled up with those and (b) not necessarily responsive to the changes of circumstance themselves but, actually, take effect for the whole month rather than pro-rated.
Incentives to work, it should be said, are very much a perceptions issue as well as an economic modelling and marginal deduction rate issue. For example, a lot

of people think you cannot get help with your housing costs in work and, of course, you can. It is very much an issue of perceptions and of timing and people's real lives, as well as what marginal deduction rates apply to which groups.

James Browne: Yes, I absolutely agree with that. You cannot just look at the pure measures of financial work incentives. You also need to think about people's perceptions of the system; moving to an integrated benefit may actually have a bigger impact on people's decisions than the pure changes in financial incentives that arise. Having an integrated system does make it easier for people to understand, and would hopefully correct some of these misperceptions about not being able to get support for housing costs or council tax when you are in work.

Tony Wilson: Research we did in 2008 for the Joseph Rowntree Foundation threw up exactly these sorts of issues. Issues around complex claim forms, having to give information to multiple agencies, poor-quality advice, and delays in payment, for example, are all major barriers to work. Work incentives are also about complexity, transparency and perceptions. That will all be addressed through Universal Credit, to a greater or lesser extent. The bigger risk with council tax benefit is less about necessarily the precise amount better or worse off people may be with the localised scheme; it is the sheer complexity. As others have said, you would need a GPS system to know whether you are better off or worse off in work rather than a calculator, because it will be different in every place. That will create barriers, and barriers the Government will need to address.

Q88 Chair: Do you know if there are any plans, therefore, to have a calculator on an individual online claim that they can put in: if I earn £50 a week, what difference will that make? Will they be able to do that?

Tony Wilson: As I understand it, that will be a key part of the Government's online portal for Universal Credit. There currently is I think a very decent attempt online to do that, which has been produced by Deven Ghelani, currently from the Centre for Social Justice, which, again, attempts to show how people can be better or worse off in work. But with this opportunity of simplifying and creating a single benefit, we should not need to rely on complex calculators with multiple variables that need a heck of a lot of local information as well to make those judgments. So tackling that inherent complexity in the Universal Credit, a large part of this reflects individuals' complex lives, is absolutely necessary, but part of which does reflect decisions that the Government has made and will need to unpick, council tax benefit being the most important in those.

Q89 Stephen Lloyd: I believe you were in the room when we were hearing evidence from the previous witnesses. Are you then saying that, actually, you would not want the council tax benefit flexibility that would make it easier for the councils, because that then adds to the complexity of Universal Credit, or that you would think that is a good idea?

Tony Wilson: The witnesses were absolutely right that the Government, having given local authorities flexibility, has then said, "You cannot apply that to half of your caseload"—pensioners. Effectively, a 10% cut becomes an 18%, 20% or 21% cut. Then additional guidance was issued and there was much debate over the last year about how far there should be guidance and how far there should be hard and fast requirements about making sure it fits in with Universal Credit. There was talk about localised systems all operating off the same system to ensure everything aligned perfectly. So what started flexibly risks becoming incredibly complicated.

Our preference would be to maintain the council tax benefit as an in-work and out-of-work benefit, with national rules and national criteria, and to integrate it into Universal Credit. It has echoes of Poll Tax all over it, really, and I think there will be huge challenges for local leaders to explain the impacts and the decisions that they are making. They have only got another three or four months to set out what their schemes are going to be.

Fran Bennett: On the incentives, I just wanted to emphasise the point about second earners in couples. I think I am right in saying it is partly a result of the Universal Credit being on net income, whereas, for tax credits, at the moment, the withdrawal rate is on gross income and is much lower. Quite a lot of second earners, compared with their current situation, are going to be in a worse situation in terms of incentives. Actually, that is the kind of group where the financial disincentives, albeit in context as we have all said, are shown to be more important, because, for example, somebody might stay at home longer after maternity leave or go back to work. I think that is right. They are more sensitive to those kinds of incentives. It is exactly that place where incentives are going to worsen for a lot of people. Of course, if you are thinking about child poverty, for example, or even about somebody who may split up and then have to be in the labour market when they are a lone parent, to make it more difficult for second earners to go into work just seems a bit counterproductive.

Q90 Harriett Baldwin: Moving on, then, to another area of complexity, which is the passported benefits like free school meals and free prescriptions and so on, do you have any recommendations as to how that should be transitioned or what the long-term solution to that particular issue is?

James Browne: This is another difficult issue that the Government has not really got to grips with yet and which could undermine a lot of the strengthening of work incentives that Universal Credit is going to bring about. At the moment, they are hoping to spend about the same amount of money and give the passported benefits to roughly the same group of people. That could create some nasty cliff edges, where people immediately lose all their entitlement to these benefits if they increase their incomes by a small amount. Solutions to that might be things like cashing up the benefits with things like free school meals and just having that as an element of Universal Credit that is withdrawn in the same way as the other ones, or just having a series of smaller cliff edges.

Q91 Harriett Baldwin: Again, the point I made on council tax benefit and the free school meals: if it were cashed up, it is still going to be much less than the earnings disregard, isn't it? You would not have to have a withdrawal rate on it, would you?
Tony Wilson: It may be. There is good analysis by the Children's Society on this, and I think they are giving evidence next week. They modelled, I think, a lone-parent household with two children earning a certain amount, and they could face very significant cliff edges, where, actually, increasing hours or going back to work becomes unviable.

Q92 Harriett Baldwin: But only if the—
Tony Wilson: Disregards are set at the wrong level.
Harriett Baldwin: And the passported benefits are withdrawn immediately when you return to work, presumably.
Tony Wilson: Yes, but you might still reduce the financial return from work relative to others. Even if people are not actually worse off in work, they will still make a judgment about the value to them of going back to work against not working and spending more time with their children, for example, particularly factoring in childcare costs and other financial constraints.

Q93 Harriett Baldwin: Have you done any work where the cash value of these benefits is taken off, as it were, the top of the earnings disregard? In other words, you go into work, your earnings disregard continues at 100%, but the amount that you can disregard is reduced by the cash value of your passported benefits. Wouldn't that be a potential way of dealing with those incentives?
Tony Wilson: Yes, and you would make your disregards a bit more complex. That comes back to the issues around complexity. There are no easy answers. Actually, on passported benefits, I would absolutely cut the Government slack, because this is a problem that currently exists; it has existed for years. Unlike the council tax benefit, where, actually, that was not a problem and we have created one, passported benefit is a long-running problem that we have not been able to solve. The Social Security Advisory Committee looked at this and they said, essentially, in the short term, we should look at things like allowing run-ons of passported benefits as people move into work—I think that would be a very good idea but it has a cost—and in the longer term, look at these issues about whether you can cash them or reform them in other ways, but that is not going to happen outside the Spending Review process, I don't think, because there are far too many Departments involved. I am sure the Government are working on it now but they should be working towards the back end of 2013, I think, to get solutions.

Q94 Harriett Baldwin: None of our wise panellists have a recommended solution for us to put in our report?
Tony Wilson: Running on passported benefits for a year, or just for a period after people enter work.
Fran Bennett: We should be a bit cautious about the cashing-up idea, partly in relation to something we have not yet discussed, which is the payment for couples, where the Government is going to make couples at the moment choose one person or one account. If you think, for example, of free prescriptions, if you cash up free prescriptions and the amount is then given to the person who is not the person with the health problem, it seems to me that is a bit problematic.
James Browne: Cashing up would be sensible for things where there is an ongoing need; for free school meals—your child always has lunch. You do not always need a prescription, so you might not worry about the cliff edges in that case, because it is going to be less salient when you are thinking about returning to work that, "I'm not going to get free prescriptions any more."
Professor Brewer: Yes, I agree with what Tony said, that this is a problem that the previous Government did not solve and this Government does not yet have a solution either.

Q95 Harriett Baldwin: We were just hoping that you, as our panellists—
Professor Brewer: You came up with the obvious solution. I suppose what the Government could also do at the same time is review these passported benefits and decide whether they should be means-tested at all or should exist at all. It is decided that people on low incomes should pay some council tax, whereas, previously, they did not; maybe people on low incomes should pay some prescription charges where, previously, they did not, or maybe nobody should pay prescription charges. The decision goes beyond Universal Credit; you should think about all these benefits in themselves and maybe have different decisions on different benefits in kind. Maybe you do different things with free school meals than you do for free dentistry care.
Fran Bennett: Which is what the Social Security Advisory Committee said, I think, but also it brings up the devolved administrations, of course, because, in some areas, these are free to everybody.

Q96 Harriett Baldwin: Moving on to a third area of complexity—and, hopefully, very quickly—obviously, at the moment, you need to work 16 hours minimum before you get help with your childcare, and money has been put into the system so that childcare support now starts from the first hour of work, which will make it a much more linear decision for people. At the same time, however, the amount that you can claim back in terms of childcare support is being capped at 70% of the actual cost. Have you, as a group, done any analysis in terms of who the winners and losers are in those different examples, and how many of them are winners and how many of them losers, and again, what the impact is on work incentives?
Professor Brewer: No, to answer your last bit. I don't think we have done hard and fast analysis. I would

say that the current situation is an odd one. It is odd that we give people who receive housing benefit a bigger subsidy on their childcare than people who are not on housing benefit. That is the current situation, and the Government is getting rid of that, which is an odd anomaly. I think it is fine that we are moving to a position where everyone gets 70%. It would be nice if everyone could get 80% or everyone got 90%; it is odd that some people currently get 90% and some people get 70%. I also think it is a good thing that people can get help with their childcare from the very first hour. Particularly for lone parents, we know that 16 hours is a bit of a big jump. At the moment, they cannot get help with childcare if they are doing mini-jobs, and I think it is a very good move that that change is being made. That will definitely help work incentives and it may well help lone parents' progression, although the evidence on mini-jobs is a little bit unclear. The losers are going to be those people who are paying money on childcare, are in work and are receiving housing benefit. I suppose that means they are more likely to be in high-rent areas, but I think the Government is ironing out what is currently an anomalous situation.

Q97 Harriett Baldwin: Do you have any idea in terms of numbers in those two different categories? It is, presumably, quite hard to estimate.
Professor Brewer: We probably could work out how many people would lose, although I do not have the answer in my head. The people who are gaining are probably going to be families who are not currently using childcare, because it is too expensive for them, so they are potential gainers. It is not easy to estimate how many there might be, but I think we could probably get back to you on how many losers there are.
Tony Wilson: I don't have the figures to hand, but there has been work looking at the scale of losses. Essentially, it is coming from the perspective, inevitably, of looking at a reduction in the level of childcare support to 70% for people who work longer hours and the potential scale of losses and numbers of losers. The difficulty with doing the analysis of who the gainers might be is that we have a benefit system that strongly disincentivises working short hours, for all sorts of reasons. It is actually quite hard. As Mike says, it is like the evidence on progression from mini-jobs to longer jobs. We don't, actually, have a huge amount of evidence; people, on the whole, do not work mini-jobs if they are on benefit, for example, because it is quite hard to do that work.

Q98 Harriett Baldwin: In conclusion, then, can I just ask the panel if you all agree that there is likely to be more incentive to take on mini-jobs as a result of this overall package of reforms than there is under the current system?
Professor Brewer: Yes, absolutely, and especially for parents.
Tony Wilson: Absolutely. I would say we also do need to look at the potential interactions with other issues here, an obvious one being automatic enrolment in pensions, where, for people who work shorter hours, the employer won't have to contribute to pensions. Although mini-jobs may be desirable, there is, actually, also a risk that we create a kind of second tier of work, which is mini-jobs where employers don't have to pay into pensions, for example, and where employment is subsidised to a much greater extent by the state. So those are risks as well. The short point is we have to crack progression from short-hours working to longer hours and higher-paid working in order for mini-jobs to be desirable.

Q99 Harriett Baldwin: I have not had time to touch on the potential for increased conditionality for in-work situations that is mooted, I think.
Tony Wilson: Briefly, on that point, at the moment the Regulations specify that in-work conditionality will be for the purposes of obtaining paid work; in other words, finding another job. In-work conditionality will not be defined around increasing earnings. We have said the Government really should look at how they define the Regulations here. The focus should be around increasing earnings, which might be working another job or it might be taking on more hours or more responsibility.

Q100 Chair: Coming back to the whole thing of reducing complexity, Fran, you mentioned the move from the purse to the wallet—I keep getting it the wrong way round there. You expressed some concern, but will it make the whole administration simpler if only one person in the household can receive the benefit, or do you see pitfalls ahead as a result of that?
Fran Bennett: We certainly see pitfalls ahead. I don't think, again, it adds to complexity very much if you just divide the payment between two people, and I don't think the Government does think that, to be fair. I don't think it increases the cost very much either.

Q101 Chair: You are suggesting you just cut it down the middle.
Fran Bennett: I suggest that, logically, if the Government is allowing the couple to choose which account Universal Credit is paid into, they should also be allowed to choose whether it can be paid into two accounts and the percentage that they might want to divide it in. Originally, we and lots of people would have been keen on, for example, retaining the element that is for children to go to the main carer, and that has been shown to be important in terms of directing it to where it is meant to go. You could also argue that the payment for housing costs should go to the person who is responsible for housing costs, and similarly with any free-prescription replacement, as I was saying. The Government seems to have set its face against dividing Universal Credit by its component elements and, however much we may regret that, that seems to be what it was saying in the parliamentary debates. Therefore, at this stage, when the claims and payments Regulations are still in draft and they are not going to be debated in the House, because they are not that kind of Regulation, it is an opportunity for the Work and Pensions Committee to suggest that the Government follows its logic of choice and allows people to choose to split the payment as well as to

choose other than monthly-payment frequency too. It is a real opportunity to do it now.

Q102 Chair: That would be a single recommendation that those two go together.
Fran Bennett: Absolutely. The Universal Credit has to work for all kinds of families. It may well make no difference to some families whether it is in one payment or more, but we know that women, for example, are more likely to have an individual account; we know women do not like having to ask all the time for money. In the most problematic situations, it is likely to be the case that the more powerful partner, who is likely to be the man, gets the payment. It is also a problem, if the woman gets the whole payment, if she is seen as, therefore, being responsible for making it stretch from month to month. The actual way in which couples divide their money may be different and they should be given that choice to do so, and I do not quite see the arguments against it.

Q103 Stephen Lloyd: Thank you, Fran. Can I interrupt there? Those are some really powerful points, which I appreciate, but just to check, while I have the others here, do you agree with what Fran Bennett is saying, or disagree?
Professor Brewer: I agree. It does not seem it would cost the Government very much more money, if any more money, to allow couples to split the payment. It does not make it more complicated and it would give them more choice. We know that low-income families budget in lots of different ways. We talked about the period earlier. They also share their money in lots of different ways, and here the Government seems to be saying, "No, you will budget monthly and we will give you one payment."
James Browne: I agree. Choice is a good thing and it seems to be a relatively low cost of giving people that additional choice.
Tony Wilson: I agree.
Fran Bennett: I also think it would undermine the Government's own aims about committed coupledom, personally, because I think some people would find it difficult to take the risk of not just doing a joint claim for Universal Credit but for having virtually all their money—including perhaps, as a lone parent, for children whom they have had from a previous relationship—going to the other person, and that may well be a risk too far in a situation in which they might otherwise commit.

Q104 Stephen Lloyd: You don't feel that there is any danger of a domino effect, not on choosing which partner or both—I accept that totally—but on having the flexibility of not just monthly or weekly. You don't feel that there would be any danger that that might undermine one of the key principles of Universal Credit, which is getting people back into the habit of monthly payments, as most people are in work. You don't think that would fundamentally undermine it.
Tony Wilson: That is exactly the principle that we should test. We should start from where we are now, which is that, as far as possible, we try to make the benefits system reflect the way that people live their lives, and then let's test, actually, whether a benefit system that reflects an inflexible payment model *etc* that is associated with work makes people more likely to go back to work. As I said earlier, my view, actually, is that it could well make it less likely, because people will continue to rely on benefits in and out of work, and having a flexible benefit system alongside perhaps, potentially, a less flexible employment payment system could be beneficial for claimants in making decisions about moving in and out of work.
Fran Bennett: Politicians are really susceptible to the power of magical thinking. For example, under tax credits, we tried to have a system where income was seen annually, as an annual total, and that did not really fit with how low-income families live their lives. We are in danger of repeating that, I think, with seeing monthly as a kind of emblem of normality, if you like. It really is not, for a lot of low-income families. That is not how they live their lives, and a month is a long time in poverty.

Q105 Chair: Which, actually, leads me neatly on to my penultimate question, which is: what evidence is there that lessons have been learned by Government from previous reforms in taking forward the Universal Credit implementation programme? Have they learned lessons, and which ones have they not learned? We have one there but are there any other lessons? If there was a big-bang approach to Universal Credit and then the IT did not work, there is a big danger. It is a single payment and it is the whole income.
Tony Wilson: Certainly, my perception now, from outside Government and from when I was in Government, in the Treasury and in DWP, is that the Government are learning a huge number of lessons and are very conscious of the issues around the rollout of tax credits in the early 2000s, around the failures of child support reform in the mid 2000s.
Chair: And it is still going on.
Tony Wilson: But what I would say is, as we said in our evidence, we need to make sure they learn the right lessons as well. For example, saying that agile computers will be better than the inflexible computers that underpinned child support reform misses a large part of the problem with child support reform, which was also around staff ability to use the systems, culture within the Child Support Agency, and inadequate management, particularly of risk. Those, I think, are really critical areas that Government needs to address. I do worry somewhat whether there is enough very close control at the very centre of Government—by the centre, I mean Number 10, the Treasury, the Cabinet Office—in terms of the control of major projects. I am sure there is, but for me having Ministers and senior officials breathing down necks at every available opportunity is, in my experience, a hugely powerful driver for making sure that things go well.

Q106 Chair: I want to ask you whether that is more or less likely as a result of the lack of movement in the Secretary of State.

Tony Wilson: I would be happy to address that. Iain Duncan Smith is hugely personally committed to this, and I think, for the purposes of delivering Universal Credit, it must be a good thing that he is staying in post. I would say as well, actually, the appointment of Mark Hoban, who has done good work on financial inclusion in his previous role as Financial Secretary, will also have an important role in, hopefully, at least asking some of these questions and coming up with creative solutions around how we ensure people are included.

Q107 Chair: My last question, then, is: what should the DWP's key priorities be for monitoring the impact of the introduction of Universal Credit?
Fran Bennett: Partly, I would like to commend the Government, by the way, for its user-centred design research that it has been doing and also its quantitative research with people who are likely to be claimants of Universal Credit. It then needs to take the lessons from that research on board—that is the key thing—and some of those are not necessarily welcome.

Q108 Chair: Do they have time to do that?
Fran Bennett: Yes, the kinds of things we have been talking about. But the Government said it would monitor the impact of Universal Credit on the distribution of income within the household between couples, and that is a very crucial thing for it to follow through.
Professor Brewer: I would just like to point out that we are not going to be able to do a comprehensive impact assessment of Universal Credit. The phrase you used, Chair, was "monitoring the impact". We cannot do that. We can monitor the outcomes for Universal Credit recipients but we are not going to know for sure what the outcomes would have been under the previous system; the Government is going for, basically, a big bang rollout. It is not properly piloting Universal Credit in certain parts of the country. You asked, in a previous question, what it has learned from previous reforms. I agree with Tony's answer: it has learned that big-bang, day-one reform does not work, but it is not learning from DWP's previous experience in piloting these major reforms, and we have seen that with the Work Programme, LHA (Local Housing Allowance) reforms and now Universal Credit. It is going full speed ahead on really big reforms and we just will not know what the real impact is.

Q109 Harriett Baldwin: They are doing pilot areas, though.
Professor Brewer: There might be some trailblazers or Pathfinders, and I know that, in the early months, some areas will get it sooner than others.

Q110 Harriett Baldwin: And there is a four year phase-in.
Professor Brewer: But the four year phase-in is not being done systematically by area; it is being done according to the type of person. If it were being done by area, then that would be great for evaluation purposes. The rollout is being designed not to make it easy to evaluate but for operational reasons. That is not a criticism; it is just a statement.

Q111 Chair: I think the sense is that the rollout is about how it operates in practice rather than whether the policy is working.
Professor Brewer: Absolutely, yes.
Tony Wilson: Just on the monitoring of impact rather than the evaluation, for me the most important point—there are many—is user voice, the claimant's voice. This comes back to a point that Fran made. We will be publishing a report on this next month as a follow-up to the work we have done previously for the Joseph Rowntree Foundation, but ensuring that the Government continues to listen and is able to listen in real time to what customers and claimants are saying is going to be hugely important, because that is a hugely powerful tool and it is often underestimated.

Q112 Chair: It is not just the listening; it is also the acting.
Tony Wilson: Exactly, and I do think potentially there could be a role for some independent oversight of that—an ombudsman or a quasi-ombudsman-type role. I certainly think the Department should be more clearly codifying its responsibilities to claimants in a similar way that does happen in many other systems. Australia has got good examples of that and it is less evident, certainly, in the Regulations. It is making sure that Government is clear about what its side of the bargain is and then monitoring impact and listening to customers and claimants.

Q113 Chair: But the rollout should allow that to happen more easily, simply because they will be doing it through segments of particular claimant types rather than geographically.
Tony Wilson: It should, but it would not be as easy as, for example, the rollout of Jobcentre Plus, which happened in different parts of the country at different times, which enabled an assessment of impact, because you could compare the pre-and post-from different areas. It will allow some assessment, but an even more phased rollout—phasing the rollout of new claims, for example—would allow more of that.
Chair: Our time is up and the Committee is just about to disappear. Is there anything that you felt you should have said and you have not said this morning or have you had a chance to say it all?
Can I thank you very much for coming along this morning. Your evidence will be extremely useful for us when we come to compile our Report.

Monday 10 September 2012

Members present:

Dame Anne Begg, in the Chair

Andrew Bingham
Glenda Jackson
Stephen Lloyd
Teresa Pearce

Examination of Witnesses

Witnesses: **Alison Garnham**, Chief Executive, Child Poverty Action Group, **Gillian Guy**, Chief Executive, Citizens Advice, and **Dr Sam Royston**, Poverty and Early Years Adviser, The Children's Society, gave evidence.

Q114 Chair: Can I begin by welcoming you to this afternoon's session? It is our second evidence session of our inquiry into the implementation of Universal Credit. I have to begin with—I don't know if it is quite an apology—the fact that the Committee numbers are somewhat smaller than you might have expected, but it would appear that being on this Select Committee is a route to preferment, as four of the Members of the Government side have been promoted in the recent reshuffle. We thought it was only three, but we just discovered a fourth one, and unfortunately there has not been time to appoint anyone else. Apologies for that, but what you don't have in quantity you certainly have in terms of the quality of those who are here to quiz you today. Can I begin perhaps with you, Alison; can you introduce yourself and your organisation, and we will go along the table?
Alison Garnham: Okay. I am Alison Garnham. I am Chief Executive of the Child Poverty Action Group.
Gillian Guy: I am Gillian Guy, Chief Executive of Citizens Advice.
Dr Royston: I am Sam Royston, Poverty and Early Years Policy Adviser for the Children's Society.

Q115 Chair: Thanks very much. The first set of questions is something that has been in the media yesterday and today, which is around the payment arrangements for Universal Credit. A number of the media outlets, certainly the BBC, picked up on some of the evidence that your organisations submitted to the Committee. One of the big concerns that you have all expressed is the fact that there is an anticipation that most claims, and eventually all claims, will be made online for Universal Credit. I think all of your organisations have expressed a degree of disquiet about that. What are your fears, or what are the problems, moving into the digital age? After all, we are in the 21st century.
Alison Garnham: I suppose the biggest concern is that we know that 8.5 million people do not currently or have never used the internet, and so to base a system on the assumption that everyone is familiar with using that is a problem in itself. There are also other issues to do with implementation that we are concerned about, which are partly about the access to advice. Unlike with the introduction of tax credits, there is not an amount of funding set aside to support the advice sector to be prepared and ready to advise people. That is a real concern, because those families or claimants who want to access Universal Credit are going to need to get advice very often in order to understand the system. For most claimants, it will be completely new to them. We think everyone has heard of Universal Credit; they won't have, so the whole thing will be a mystery, and they need to be able to go somewhere to get advice and support. That is one of the critical legs, if you like, which is missing from the preparation.

Q116 Chair: Are you asking that actual monies are set aside specifically for the advice and help to make those online claims?
Alison Garnham: Yes. There was a grant stream, for example, made available through HMRC to support training and information around tax credits. With something even bigger like this, which is about to affect up to 19 million individuals, it would make sense to have the sector prepared. Also the sector can help to anticipate problems and make sure the system works better, so it actually helps the system implement more easily.

Q117 Chair: How much would that cost? Do you have any figures?
Alison Garnham: I don't have a figure, but what I will say is that the problem at the moment is that we are actually seeing a reduction in advice services, because cuts in Local Authority services and the removal of legal aid mean that two legs of funding for many voluntary sector advice agencies have disappeared, so we are seeing a reduced capacity in the sector. Many Local Authorities that have had welfare rights units have closed them down. We are launching a big ship on a falling tide of advice, at the moment.

Q118 Glenda Jackson: Can I just ask on that? The constituency experience was that the tax credits were a total unmitigated disaster, so have you been able to asses what was wrong with the advice that was proffered that was paid for? Was it the fault of the advice, the organisations they spoke to, or what?
Alison Garnham: That did not start right at the beginning. Actually, what happened was that people identified early what the problems were and those were rectified. It was organisations on the ground that noticed what was going wrong before government departments did, so I think it actually worked in the end, but you are right.

Q119 Glenda Jackson: The advice people were quicker to target.

Alison Garnham: Yes, because it is easier to have local intelligence than it is at government level. The same thing will happen with this: this is again very big and, without that preparation, there could be problems. The other thing was that there were obviously teething problems that were identified as soon as tax credits were implemented, which needed to be adjusted, and the same will happen with Universal Credit. It seems to be inevitable that that will happen. Both the design and the delivery need to take that into account.

Q120 Chair: Have you got any sense as to whether people will be allowed to turn up at Jobcentre Plus and expect a computer to be there or the help to be there, or are they going to be discouraged from doing that? Indeed, if they do turn up, will they be turned away, which comes to Citizens Advice, because where they will end up is with you. Is there not going to be any in-house support in that respect and, if there is not, what needs to happen from your end?
Gillian Guy: The issue is that what we are highlighting here for Government is that, if you are going to bring in such major and ambitious plans for change around Universal Credit, then there needs to be a plan, and that plan needs to be what the safety net is for all of those people—millions and millions of people—who are going to need some help. We are already seeing at Citizens Advice, with the one change around Employment and Support Allowance, that in the first quarter of this year, compared to last year, we have seen 76% more enquiries with people coming to us concerned and very anxious about what their future income is going to be and how they are going to deal with the system. The plan, which needs to come from the legislators and the implementers, is how you are going to make sure that the safety net is there and the advice is available to people to take them through this. Digital by default is just another complication on top of that because, as well as the 8.5 million there were, another 14 million don't seem to have IT skills. 30% of the people who come to Citizens Advice don't have access to equipment to use IT. We are concerned that, on top of the volume of advice, we won't, as advisers, be able to have assisted advice for those people. Can we access on their behalf? Are we trusted intermediaries? What is the plan around enabling us to give the advice and also to make sure we have the capacity to give the advice?

Q121 Chair: Do you have no sense that any of those questions have been answered at the moment?
Gillian Guy: It is fair to say we are in conversation, because it would be remiss of us not to engage with the Department for Work and Pensions to say, "This is an issue; what are we going to do about it?" What we don't have at the moment is a plan that says there will be provision and that, against a backdrop, as has been said by Alison, of diminishing resources, something is going to be put here as an investment to make sure that we have the advice there.

Q122 Stephen Lloyd: Do you believe—yes or no—that the DWP does appreciate that there is a real delivery concern? What is their attitude to what you are highlighting?
Gillian Guy: I think they would say that they get it. I would say to them that they cannot get it as well as we get it, because we have people coming through the door, accessing us, sometimes online but also over the telephone, and we understand the devastating impact some of this is going to have, including the monthly payments.

Q123 Stephen Lloyd: Have they given any sense of timelines for when they actually might come to you with a more detailed plan?
Gillian Guy: We are in discussion. I don't know if my colleagues have any absolute dates, but we certainly are in discussion, and I think there are signs that there is some listening going on. No one wants a disaster.

Q124 Glenda Jackson: It is just on the issue that we have actually raised in Committee with officials, I think, and that is the issue about which you made the point, of whether there will be trusted advocates for the individual who cannot actually handle this. This throws up the much broader issue of security. When we raised the issue of security—because they were talking about people being able to access the internet in internet cafes and things of that nature—they reassured us that security is going to be a top priority. Is this something on which they are saying to you that they cannot allow you to be a trusted intermediary, or has that not arisen?
Gillian Guy: It has arisen, but I don't think we have got a final answer on that yet. It clearly looks as if it is difficult, but we don't think it is impossible. If there's a will, there's a way.

Q125 Chair: The other big issue that came up in the media over the weekend is the fact that Universal Credit will be paid monthly, into a bank account, to one person. First of all, a large number of people on benefits, even though there have been direct payments for some time now, don't have bank accounts and certainly don't have flexible bank accounts. What are you picking up from Government with regard to work that has been done to help alleviate the problem of lack of bank accounts?
Dr Royston: The crucial issue there, or a crucial issue there, is payments to joint claimants, and particularly to joint claimants who don't have joint bank accounts. We have a situation, it looks like, where if you have a new partner and you move in with them, and you have a child but they are paying the rent, the money for Universal Credit can only be paid into one bank account. Many people may not be ready to share their money when they first move in together. In many respects, what I am really worried about is that this could actually put off people from forming sustainable couple relationships, because they are worried. Either a mother taking her children and moving in with her partner is worried that she is going to lose control of access to money for her children, or a partner, quite reasonably, may be worried about losing control of the money he is getting to cover the rent. It is that kind of dynamic. It does not feel like there has been enough consideration of particularly new couples

moving in together, forming relationships in that manner.

Q126 Chair: How easy would it be to change that to allow couples to choose?
Dr Royston: It seemed from our earlier conversations that they have created the facility to enable that to happen, and it seems quite unclear, to me at least, why they are not willing to allow that to happen. That is something that needs a bit more looking into, because the facility is there. They need to create the facility for difficult cases, but there is a lack of clarity in how often they would be willing to use that.

Q127 Stephen Lloyd: I actually asked the Secretary of State, in the Chamber this afternoon, that very question, because obviously I would have particular concerns, for instance, that a lot of women would be likely to lose out. He is coming here next Monday—I will have more time to get more detail—but certainly he indicated to me, this afternoon in the Chamber, that he understood there was a problem, that there would be flexibility and, unless my colleague Chair Anne Begg disagrees, he appeared to be clear that there would be enough flexibility there, so I am not entirely sure whether that has been clarified to outside bodies, or whether he has been over-optimistic. That is certainly something that we would want to drill down on with him, when he presents evidence on Monday.
Dr Royston: I very much hope that we will get a bit more detail on that. You mentioned women; obviously we are from the Children's Society, and the first priority for us is children. The real concern here is about whether the money will get to the children. We know that, where benefit payments are paid to the main carer for children, that is the best way to ensure that that money gets to the children in the end. There is a concern here that, if the money is not of necessity paid to the main carer for the children, at least some of the money paid on behalf of the children may not end up contributing to their well-being.
Alison Garnham: I just wanted to add to that we know the facility is there, but we understand the preference would be to divide the payment up in percentage terms, rather than in the component parts of Universal Credit, whereas what has happened before is that people have proposed that payments for children, for example, should go to the main carer. It does not seem like they are minded to look at that. The other issue is free choice. What a lot of us are advocating is that couples should just be able to simply choose whether they have split payments or not, because that might replicate the pattern in their family. It is normal in many families for there to be two people earning and so two streams of income coming in, and so it would be more natural for money to be paid in that way. Also then, if somebody got a job, it would be easy to see the impact of that work on your Universal Credit income as well. There are all sorts of reasons to do with the design of Universal Credit why we think that would be more successful.

Q128 Chair: I can see it would be easy enough, and it is just a different box or a different field in the computer programme to split it 50/50 or 40/60. Would not the whole nature of Universal Credit make it impossible to divide it into the different elements, simply because the individual elements don't really exist any more? Then there is the top-up or removal, depending on the way the tapers work, so the global sum is not as easily identifiable as individual components. Isn't the Government actually right to resist that, because that would be difficult?
Gillian Guy: I think it depends on whether it is more inconvenient for the claimants or for the DWP. I am sure it is quite difficult to separate it out, but the fact of the matter is that, if it is put into one person's bank account, as we have heard, there are problems envisaged with doing that without giving people the choice and understanding that it is going to reach the right people, and potentially the children, who it is actually aimed at. It feels to me as if it might be in the difficult box, but it is certainly possible.

Q129 Chair: The Government is saying that there will be separate arrangements for those who are vulnerable. I have not been able to work out—maybe you could help me—how they are going to identify who are vulnerable and who are not, and therefore should be left to their own devices. Have they come up with any criteria defining who will be vulnerable, and then secondly how they are going to find them or identify them?
Gillian Guy: We have not seen a definition of "vulnerable". We would like to see it the other way around, which is that people generally are vulnerable. Therefore, they should not be the exceptions who have the rules written for them; it should actually be that the rules are written to cater for people's very variable difficulties. We have seen a tempering of ambition around the monthly payments, and I am sure there will be more in this Committee's questioning. It is really a matter of budgeting as well, and people having the wherewithal to be able to budget. There is another issue here, not just the single payments.

Q130 Chair: If you could just go on, my next question was about what problems the monthly payments are going to throw up. Would it be possible, and how easy would it be, to give people choice about how often they receive their payments?
Gillian Guy: We are hopeful there will be more choice about that as the implementation plans become clear. Just to switch over we would certainly say is unrealistic, but quite dangerous as well. We could see people, as we do—many millions of them—getting into severe debt difficulties and not paying the priority bills because they cannot budget appropriately. It does not reflect low-paid work, because that tends to be weekly or fortnightly payment anyway. What we are also worried about is turning to payday loans and doorstep lenders to bridge the gap, which again is not a healthy situation.
Dr Royston: One thing to welcome about the payment arrangements is that it will be paid as one sum. In some respects, that is an improvement on the current situation, where you have various different types of benefits potentially going into a bank account all through the month, dotted around through the month, and people find it much harder to keep track of them.

However, what we would like to see is the option of having that one lump sum but having it more regularly. Then you have the best of both worlds and people are really able to manage their money.

Q131 Glenda Jackson: Have they taken into consideration those millions of people who don't have bank accounts, will never have bank accounts, and have no access to a bank in many instances?
Gillian Guy: To some extent, they may be the exceptions, which is why I think we are saying here that we should not just look at exceptions as strange and odd cases. Sometimes they are the mainstream cases that need to be catered for.

Q132 Glenda Jackson: They certainly are in my constituency.
Gillian Guy: Exactly, and I can see that going further, because we do see that banks are more reluctant to give basic bank accounts to people.
Glenda Jackson: Indeed they are.

Q133 Chair: Do you know if there are discussions going on with banks about offering the kind of account that they call "jam jar accounts", or is it expected that credit unions will pick up that role?
Gillian Guy: I think there have been some informal discussions. I am not sure how enthusiastic the banks are about them, and we don't know how much they would cost to administer.
Alison Garnham: There are some other issues to do with the budgeting issue as well. We just conducted a piece of research with the Joseph Rowntree Foundation, called "The Cost of a Child", which shows that to meet a minimum budget for bringing up a child, benefits at the moment only contribute about 60% of the cost. If you are on the national minimum wage, you only get about 80% of the income towards the minimum acceptable budget for a child. Some of these issues to do with budgeting are not just to do with payment methods; they are to do with the adequacy of benefit as well.
One of our concerns about the monthly payment is also the way it interacts with monthly assessment. Particularly in the early stages, for people who are currently paid weekly or fortnightly, there could be quite a long time lag before they get a first payment. This could actually happen on a number of occasions and is affected by the way the assessment system works so that, if you have a change of circumstances towards the end of a month, it is taken into account for the whole month. In some circumstances, people could wait up to six weeks for a change of payment. If they leave a job, for example, and the amount of Universal Credit is very low, it will take a while; there will be a lag before that is taken into account. There are things to do with the design of Universal Credit that are also a bit of a problem in terms of people being able to budget.

Q134 Chair: What is the solution? Should there be some kind of benefits run-on?
Alison Garnham: A benefits run-on and also very easy access. We are not quite sure how this will work, because we have only just seen the Regulations and lots of things have been left to guidance. That is another general point to be made about Universal Credit: it seems simpler to have fewer Regulations and more things in guidance but, in practice, we have not seen that guidance and have not been consulted on it yet. We don't know all of the detail. Part of the problem is that we don't know exactly how these things will work.

Q135 Chair: On what you just said also about the adequacy of the benefit levels, I am just wondering if your organisations have done any work on the changes that are already taking place or are being implemented now. I am thinking particularly of Housing Benefit, where it may be that a family's housing budget no longer covers the full rent. That must be a particular issue in London, but not just in London. That means that the rest that they get in Universal Credit will be used to supplement the rent, leaving less for other things. Have you been able to quantify the numbers involved who would be in that position, and the amount involved?
Alison Garnham: Not as precisely as that. We know that about 2 million people will be worse off under Universal Credit, so they will see reductions in income. Some of that is to do with the design, so that for people in work the rewards are not as great as for some people on tax credits. It depends which group you are talking about but, for some people, the incentives to progress and advance in work will actually be worse than they are under current tax credits.

Q136 Chair: We have got questions on incentives to work, but I was just thinking more about the housing benefit and the adequacy of the benefit levels.
Dr Royston: In terms of the Housing Benefit changes, there are three key changes and they are all going to be followed through under Universal Credit. We have got a cap on Housing Benefit entitlements, which is affecting a relatively small number of households, but to quite a substantial extent. We have a cap on overall benefit entitlement coming in next April, which will initially be taken out of housing benefit and then, under Universal Credit, will come out of the whole Universal Credit lump sum. Thirdly, we have got the changes to the uprating of housing benefit amounts, so an effect that changes how maximum housing allowance is calculated, so a change from the median level of local rents to the 30th percentile of local rents. That is going to affect a much larger number of people, but to a much smaller extent. I seem to remember the average loss from that was £8 or £9 a week, but what is happening there is exactly what you are saying: people will have to be taking a small amount out of the rest of their benefit entitlement, which is not meant to be covering their housing costs, but you are finding you have to pay £8 or £9 a week out of your other benefits.
There was another question there, which was about the first payment. It is right that you raise the issue of the first payment of Universal Credit, because there is a very important issue that I do not think has been considered enough, which is about automatic backdating. It looks, from the Regulations, that the

Government intends to take away automatic backdating of Universal Credit claims, as you would currently get with tax credits. To put this in context, the tax credit backdating, so the period that your award could be backdated from the point when you make a claim to the point when you became entitled, was reduced from three months to one month recently. I have actually got a friend who just had his first twins, and he said what a nightmare it was to claim within a month for tax credits. Under Universal Credit, there is going to be no automatic backdating, so it appears, from what I can tell, that the intention is that you should have to make your claim on the day that you first have a child. It seems unlikely to me that many people are going to be making their claim for Universal Credit on the same day that they have a child. I would be very keen to hear a bit more detail about the Government's intentions for backdating.

Q137 Chair: Or indeed on the day you lose your job. There is that potential as well.

Dr Royston: Yes. I say, "Have first child", because I suspect that the majority of people making a claim for Universal Credit will be people who come into entitlement as a result of having a child.

Chair: We do have more questions on the impact with other welfare changes coming up, so we will move on.

Gillian Guy: Can I just mention one on housing, because I would not want us to pass on without noting the payment to the claimant rather than the landlord? It is another issue that really concerns us.

Chair: I think we have that coming up.

Q138 Stephen Lloyd: As we all know, one of the key objectives around Universal Credit was to make work pay. It is obviously the theory that has been underpinning it from the beginning, so I have a series of questions around that side and I would value hearing what you have to say. First on the conditionality, does the proposed conditionality and sanctions regime under Universal Credit provide a framework that is likely to be effective in encouraging claimants to return to work, in your opinion, if we start with you, Alison, and move across?

Alison Garnham: One of our concerns about the conditionality and sanctions regime is that we worry that it might actually deter take-up of benefit. The research that has been done on this by the Joseph Rowntree Foundation suggested that, although more people enter work when they are under a conditionality regime, they don't always progress in work. Many of them don't understand, if they are sanctioned, why they have been sanctioned, so there is a question-mark about how effective sanctions regimes can be.

We have an additional concern about the fact that some of the hardship payments will not necessarily be automatic and some of them will be loans to be paid back. Particularly for the vulnerable claimants, we are really concerned where they don't understand why they have been sanctioned and it has been imposed. There is a desperate need for them to have access to good advice in order to be able to comply. To cut a long story short, we think that this kind of regime works best alongside very high quality employment support and advice, because somebody needs to explain why the sanction has taken place and what steps they need to take in order to remove the sanction. The research seems to suggest that a lot of people have got kind of stranded and could not work out how to get back into benefits. We have some concerns about how it is going to work.

Q139 Stephen Lloyd: Broadly, Gillian and Sam, because we do want to get through a lot of important questions, would you agree with what Alison is saying, or are there any particular issues you would want to add?

Gillian Guy: We would agree, and just say that, where people do get into employment, that is very rarely sustainable in our experience, so it is not a long-term effect. The other point is that there ought to be some obligation on the Department themselves to make sure that people have the ability to comply. We have examples of cases where there was never a hope that someone could comply with the conditionality, but it was not picked up early enough and they were penalised subsequently.

Q140 Stephen Lloyd: Is that something that the DWP has taken on board?

Gillian Guy: My impression is that the DWP is in listening mode at the moment because, as I said at the top of this, they do not want to walk into a disaster. I hope that they are taking our comments as constructive to try to make the impact of this as little as possible, in detrimental terms, for people.

Q141 Stephen Lloyd: What about, for the first time, Universal Credit is also introducing conditionality for people in work? What are your thoughts around that, Sam?

Dr Royston: One problem with that so far is that we have not had very much detail on that at all. They have said that the claimants who are in work will not be subject to the core conditionality regime, but they do appear to want to extend some level of conditionality, but they have not really said what. I think basically we need to hear more about that. I am very reluctant to think that there should be any conditionality for people who are working more than 16 hours a week. There are real risks of conditionality being applied to those groups in a way that actually leads to them to make bad decisions with regard to their employment, for example giving up a job where they have reasonable employment protections, they are already established there and they have got maternity rights, for another job perhaps with a couple more hours and slightly higher pay. Basically, we need to see more detail about that.

Q142 Chair: The thing that has already changed in Working Tax Credits is if there is a couple and only one is working 16 hours, but in order to qualify they need to work 30 hours. Do you have any evidence that people have actually given up work, because they have lost the tax credits, so working the 16 hours means they would be better off on benefit?

Alison Garnham: That is one of the big problems with the in-work conditionality, because that is a really good example. If ever there was an enormous incentive to increase your hours that is it. Couples on tax credits, in April, stood to lose up to £3,700 a year if they did not increase their hours from 16 to 24, but they could not find the additional hours.

Q143 Chair: I suppose the Government's argument is that that should act as the incentive for them to increase their hours, so why did they not increase their hours? Why did they end up out of work altogether?
Alison Garnham: Because the hours are not available in the labour market. We had very good evidence from the shop workers' union USDAW, for example, which showed that the industry just simply could not give people more hours. People wanted more hours, but could not get them. The thing that underpins the whole of Universal Credit of course is the state of the labour market, and that will dictate how successful or otherwise it is able to be. The other thing on in-work conditionality is that, in the work that DWP did with its customers, it was one of the things that the customers felt was most unfair. They felt that, once they had got a job, they had delivered their side of the bargain and did not really understand why this would take place.

Q144 Chair: They thought they were trying, but they were being punished for it.
Alison Garnham: They had done what was required of them, yes. The indications that we have been given about what the test will be for when you are doing enough work is looking at earning something like 35 times the national minimum wage. For a lot of people, particularly self-employed people who have very low turnover, and people who have care arrangements who are unable to increase their hours for whatever reasons, it will be very difficult for them to increase their hours to satisfy that requirement, whereas somebody on a very high earning could satisfy it quite quickly.

Q145 Stephen Lloyd: Looking at the earnings disregard, I appreciate it is a bit of a challenge for us, because none of us have the precise detail of what that is going to be. Nonetheless, there have been some recent announcements arguing that the recently proposed simplifications of the earnings disregard may actually introduce more complexity. Would you agree with that and, in your view, does the originally proposed approach offer a better solution?
Dr Royston: Yes, it looked like it did. The original proposal was that there would be two levels of earnings disregard—a lower level and a higher level—and the higher level would apply to people with no housing costs. The rate of earnings disregard would be reduced between the higher and lower level, depending on the level of housing cost that was claimed. The rate that was suggested was that the earnings disregard would be reduced by 1.5 times the rate of housing cost claimed. If £50 a week was claimed in housing costs, then £75 would be reduced from the maximum level of earnings disregard towards the minimum level. If it goes below the minimum level, it is stopped, so they refer to it as the disregard floor. That actually worked quite well in some respects. I know it is complicated, but it worked quite well.
The new proposal, what we see in the Regulations, is that the earnings disregard would be just two levels: high level and low level. If you get no housing costs, then you get the high level. If you have got housing costs, then you get the low level of disregard. You can understand their proposal for this was that this was a simplification. In some ways, you can see why they said that. However, the trouble is that people with low levels of housing cost could be left in a situation where they don't know whether they would be better off claiming their housing costs and going for the lower level of disregard, or not claiming their housing cost and getting the higher level of disregard, because they are stuck somewhere in the middle. Actually, that could create a huge amount of complexity in the system for people with those low levels of housing cost. There is a real concern that they would go for that option, because of the additional complexity they would actually add to the whole system.

Q146 Stephen Lloyd: What was the Department's rationale for moving away from their original proposition then?
Dr Royston: We have not really heard much more from them since then. I think we need to be having more discussions with them on that point, but I have not heard from them further on that point.
Gillian Guy: I think it may be another example of it being simpler. It is simpler from the administration point of view, but the impact is not necessary desired or simpler. It is the same for children and not having differences for numbers of children. Larger families are going to be seriously damaged by that.

Q147 Stephen Lloyd: That leads me on to the next question, which is about childcare costs. There are clearly a number of complexities around there. You have mentioned it, Gillian; could you flesh out what you believe the effect of the changes is likely to be on families with children and their ability to find work?
Gillian Guy: I have just mentioned the disregard point, which is about flattening out, no matter how large the family, how many children there are, which is going to be far worse for larger families, in terms of that disregard.

Q148 Stephen Lloyd: How would you define large families? Excuse me for interrupting. What sort of numbers are you looking at—four or five?
Gillian Guy: Even three or four. You start multiplying costs as soon as you have more than one really, so it becomes an issue. The other issue of course is the 70% of childcare costs. We have been asking for that to be reviewed because of the detriment that that would bring about, particularly for lone parents with high childcare costs and low earning ability, and also for those with children with disability. They are going to be seriously discriminated against.

Q149 Stephen Lloyd: I read that submission. It was very powerful. Has the Department actually responded specifically to you on that point about the children and

also with disabled children, and the fact of how much the parents are going to lose out?
Gillian Guy: Not so as to amend anything, no.
Alison Garnham: We worked very hard and intensively with DWP to get the childcare element established in the first place. For a long time, it was very unclear what it was going to be and they had to find extra money to create a situation where it was not worse than the current situation, so it is 70% with the same maximum levels as there are in tax credits. The problem is that, currently, there is an additional support for childcare costs through housing benefit and council tax benefit, which means currently you can get up to 95% of your childcare costs covered, so it is actually a reduction to have it at 70%. That is one of the biggest problems because that obviously affects work incentives quite significantly, particularly for people in high-cost areas like London, where paying 30% of your childcare costs is a lot.

Q150 Stephen Lloyd: I am going to repeat: has the DWP responded to your concerns on those points yet?
Alison Garnham: We have been in dialogue on this for a long time, but we came to a full stop, because they had found extra money and it was made clear it was going to be very difficult to find any more. This is one of the issues that we need to keep pressing on in the future in order to make Universal Credit work better.

Q151 Stephen Lloyd: If I can go at a slight tangential back to Gillian, I see from your submission the proposition that severely disabled adults with no care could lose up to £58 a week over, over £3,000 a year. Could you explain that?
Gillian Guy: That is right. That is because of the change in the Severe Disability Premium and the fact that adults living alone, if they do not have a carer, will not get the Carer Premium either, so they will have a reduction of £58 a week. We have asked the Department to consider giving the equivalent of a carer allowance to those severely disabled adults who actually live alone and look after themselves, because they have to get help to do that, by the very nature of their being severely disabled.

Q152 Stephen Lloyd: Let us move on to passported benefits. That is one of the other challenges with Universal Credit. It will introduce new “cliff edges” into Universal Credit, and the Government has said it cannot afford to extend passported benefits to all Universal Credit claimants. What interim arrangements for dealing with passported benefits do you suggest should be put in place for the introduction of Universal Credit?
Dr Royston: I think that, for us, the key issue around passported benefits has been around free school meals, because it has a very considerable value for families. There is a real problem with the Universal Credit and passported benefits, in that the current arrangement, particularly for free school meals, means that the loss of free school meals coincides with the gain of working tax credit, which means that one offsets the other. If the parents desire, they can buy school meals with the additional entitlement that they gain through working tax credit. There is no similar point under Universal Credit, because of the design of a smooth work incentive system so that, as incomes increase, benefit entitlement gently goes down. This means that, if you remove free school meals at any fixed point, either with hours or income, then there will be a benefit cliff edge, which means that you could see a considerable drop in income as a result of going over that level of entitlement.
In some cases that could be very substantial. If you are a lone parent with three school-age children, the value of the free school meals could be around £1,100 a year and, because of the high withdrawal rates on Universal Credit, the fact that you are already only keeping a small amount for every extra £1 that you earn, you could have to earn four times that before you earn that back. You could be talking about anywhere in a field of about £4,000 or £5,000, where you are actually worse off than earning under that threshold where you lose entitlement to free school meals. That is a real problem; it is a real flaw with the fundamental proposals in the system. To be honest, it is a very difficult one to see an effective way out of. The only way that this can be effectively dealt with is through extension of free school meal entitlement. It is proof that something like Universal Credit really cannot be done on a shoestring.

Q153 Stephen Lloyd: How do you mean, extension? Define it.
Dr Royston: If you extend free school meals to all Universal Credit claimants, then you would considerably impact on the problem. It would be a considerably reduced problem.

Q154 Chair: There was a problem with Income Support that, if you were in receipt of it, you qualified for free school meals but someone with the same net income, of around £13,000, who did not qualify for Income Support did not qualify for free schools meals, because the passport was the Income Support. You had two families on identical incomes, but one got free school meals and the other did not, because one’s income was made up from earnings and the other one was made up from Income Support. I do not know if you remember that example. Was that ever solved?
Dr Royston: Actually, in some respects, we were heading towards creating that problem by creating an earnings threshold, an income threshold, for receipt of free school meals that was more generous and would have been a very good thing, in some respects, but would have created the same problem that we had under Universal Credit. That was the proposal to increase entitlement to free school meals to those earning up to £16,000. In some respects, that was a very good thing but, in other respects, it would have created that cliff edge. No, at the moment we do not have that cliff edge, for exactly the reason that loss of free school meals coincides with gaining Working Tax Credits.

Q155 Stephen Lloyd: Have you done the business modelling to show the cost to follow up your suggestion to put everyone on Universal Credit on free school meals? What would it cost?

Dr Royston: If you put everyone on Universal Credit on free school meals, we estimate it would cost about £500 million a year. However, the cost of that could be reduced potentially, if necessary, by reducing the level of earnings disregard received by families receiving free school meals. Basically they would be making partial payment towards their free school meal entitlement from their Universal Credit entitlement, via their earnings disregard. That would not affect out-of-work families, because earnings disregards are irrelevant for out-of-work families, but would be more generous and solve the problem, to a considerable extent, for in-work families. We estimate that, if you reduced the earnings disregard by £5 per child, it would reduce the overall cost from about £500 million to about £300 million. Actually, in poverty alleviation terms, it is also an extremely effective mechanism for lifting children out of poverty.
Alison Garnham: We have good evidence now from the Institute for Fiscal Studies that it affects children's attainment levels as well, where there are free school meals.

Q156 Stephen Lloyd: Not least because of the Pupil Premium as well, so you have that higher attainment.
Alison Garnham: Yes, so you have children who don't get free school meals unable to perform as well in school. There is a lot of evidence that families go without food when they are struggling, and free school meals are often the only meal a day children get. It is interesting from the DWP research as well that these passported benefits, like childcare costs, free school meals and so on are some of the things that parents value most when they are thinking about incentives to work. The DWP's own research was suggesting this was the sort of thing that parents looked at when they were evaluating whether they would be better off in work—whether they would be able to afford the childcare, whether they would get free school meals still and so on—rather than the marginal deduction rate. Let us face it: not many people sit chatting over breakfast about marginal deduction rates, do they? Things like getting their childcare costs and getting free school meals did make an enormous difference to whether they thought they would be better off in work.

Q157 Chair: It just occurred to me, as we were talking about digital by default and also looking for work incentives, that you can only have the work incentives if you know you will be better off in work. Sam offered examples of where it might be difficult with the housing stuff. Would it be possible, or are there any plans, for an individual, if they are going in to report a change in circumstances, to go into their own file and put in those scenarios? That would tell them if they would be better off or not.
Alison Garnham: There is going to be facility on the computer system that would show you. They are calling it a "better-off calculation", but it tells you how much more or less Universal Credit you will get. That is not a proper better-off calculation because, in order to see whether you are better off in work, you would need to see how much more you would have to pay in childcare costs, housing costs, whether you lose free school meals, what your travel to work is and so on. We have actually advised Government that it would make sense to have a much more sensible "better-off" section in that computer programme.
Gillian Guy: It is another argument for making sure there is independent advice available to take people through all of that, otherwise they could lead themselves into the wrong decision.
Alison Garnham: One of the things you raised earlier was about getting advice and help from DWP. Over the years, as you know, there has been a move towards much more arm's length processing, with processing going on in remote call centres.
Chair: Dundee is one. Dundee is not remote, but I take your point.
Alison Garnham: That is a huge problem for claimants in itself, because it is very hard to get someone you can talk to about your entitlement. Particularly with a new scheme like this, it is going to be crucial that they talk face-to-face with somebody about it.

Q158 Glenda Jackson: That goes to the local knowledge that you talked about a bit right at the beginning. This is essentially about the income entitlement of disabled people. Under Universal Credit, the Severe Disability Premium is going to be abolished. Who are the people who will lose out on this? Are there any precise definitions or numbers?
Gillian Guy: I have mentioned those who live alone and do not have a carer, because they will be £58 a week or £3,000 a year worse off. There are disabled adults who are actually fit for work but unable to earn enough to support themselves fully, and they will lose significant amounts—many around £40 a week, so quite significant there.
Glenda Jackson: Quite a chunk, yes.
Gillian Guy: And families with disabled children particularly, who are not counted as severely disabled, will lose about £29 a week.

Q159 Glenda Jackson: Is that per child or in total?
Gillian Guy: It is per child so it depends how many children you have.
Glenda Jackson: I was going to say. That would be per child. I am thinking of a constituent now who has three children with disabilities.
Dr Royston: The abolition of the Severe Disability Premium is a real concern for us because of the impact on families with young carers. At the moment, if you have a lone parent with a young carer, they would not be entitled to receive carer's allowance, and we think rightly, because the child should be concentrating on their education; they should not be a full-time carer. The family would be getting the Severe Disability Premium to help the parent with the costs of self-care to take away those burdens of care on the child. We know that there are about 25,000 lone parents receiving the Severe Disability Premium, and we are really concerned that those families are going to end up, not only as a result of the loss of the Severe Disability Premium, with the children in the family having to take on some of those burdens of care as a result of the loss of that support. That is a huge amount of money; that £58 a week is very, very substantial money. We don't want to see the impact of

that transferred on to children. That is the real concern.

Q160 Glenda Jackson: There are children who are already caring. We had a debate on this only on Friday.
Dr Royston: Absolutely. When we were looking into this during the course of the Bill, I spoke to a mother and daughter; the mum had had quite a severe brain disease, which had caused her to become paralysed entirely down one side. For a while, her daughter was staying with relatives while her mum was in hospital but, after her mum got home, she moved back in with her and was basically her full-time carer. Now other people did come in; the mum was receiving high-rate care DLA[1] and the Severe Disability Premium, which meant that they could get paid-for carers to come in and take some of that burden of care away, but they were not staying overnight. The child was looking after her mum overnight. She said there was one period, while she was doing her GCSEs, when her mum got really, really ill. She was having to get up three or four times a night. Obviously she was absolutely exhausted. She was coming in from school and going straight to bed, because she knew she would have to get up during the night several times. It is families like that that are going to be losing the Severe Disability Premium, and it will be children like the child from that family who will be taking on the burden of those care responsibilities.

Q161 Glenda Jackson: Have you any idea at all of numbers?
Dr Royston: As I say, there are 25,000 lone parent families receiving the Severe Disability Premium, so those are the kinds of numbers we are talking about.

Q162 Glenda Jackson: But not necessarily the very young children in those.
Dr Royston: They are not necessarily very young children.

Q163 Glenda Jackson: The Government's argument is that they are going to save money, and this money is going to go to support ESA claims. Do you think that is the best use of it?
Dr Royston: One thing that is a real concern and that has been missed is that even the most severely disabled adults getting the support component of ESA will be worse off if they lose the Severe Disability Premium. They will be worse off overall, even after the uprating of the support component of ESA. On that basis, I just don't think this works. It does not feel like it takes enough account of those costs of self-care. As Gillian mentioned, there are also real concerns about the impact on disabled children of cuts to the Disabled Child Premiums, which are currently paid through child tax credit, and their comparison under Universal Credit as well.

Q164 Glenda Jackson: An argument that has been put up to us quite consistently from various disabled individuals and groups is that the money is not so much within the home, but it is the failure of society as a whole to actually adapt itself to the needs of people with disabilities. Do you think this kind of payment would assist in that way? Do you know what I mean? I mean of people not being able to get around and things of that nature. Would that be to the benefit of people being able to get work, always given that the jobs are there and employers are willing to change their work environment?
Alison Garnham: Disabled people have considerable extra costs to do with mobility and care needs, and disabled children also. For example, the childcare costs for disabled children are much higher.
Glenda Jackson: I am coming on to that now.
Alison Garnham: There is also a problem for carers in Universal Credit, in that they will not be able to get both the work-related activity component and the carers' element, even though it is quite possible to be both sick and a carer. That is a problem as well.
Gillian Guy: It is also not a payment that is designed to deal with the society problems. It could never do that.

Q165 Glenda Jackson: But you know what I mean; people say, "It is not my individual things that I am doing. There is a broader landscape out there, which we are failing to—".
Gillian Guy: You have to work here and live in that broader landscape. They need better systems.

Q166 Glenda Jackson: Absolutely, yes. That does bring me now on to the issue of the disabled child and the reduction that we have talked about, as far as the disabled child. You have given some indication there. Do you have anything more to add?
Dr Royston: One thing to say is we have been absolutely delighted to be working with Citizens Advice and Disability Rights UK in supporting Tanni Grey-Thompson in her inquiry into all of these issues, which will be reporting in mid-October. One of the things we have found from the survey that we undertook with families is the number of problems that families with disabled children face, which that money can help to support.
We do not think that the Government rationale for reducing that support is right. The Government rationale seems to be twofold. Firstly, they say they are aligning support for disabled children and disabled adults, because they are changing the support level for disabled children from £55 a week to align it with the work-related activity component of ESA that is paid for disabled adults. It does not work, partly because ESA claimants in the work-related activity group are only expected to be out of work for a while. They will be, shortly afterwards hopefully, moving back into work and they will gain some level of support for moving into work as well. They might get an increased level of disregard, for example, in their entitlement.
Families with disabled children, very often, are going to be out of the labour market for a very long time, because of the additional care needs. In fact, one of the things that we found from the survey was that only a very small proportion, particularly of families with children on middle or high-rate care, only about 2% or 3%, were saying that they were expecting to move

[1] Disability Living Allowance

back into work within the year. In fact, most families were saying they were expecting it to be more than five years, more than 10 years in many cases. We need to think about the longevity of the change. Families with disabled children are having to look much further into the future, needing to cope with that level of entitlement. There are clear reasons why the Government needs to reconsider this.

Q167 Glenda Jackson: According to them, certainly with low-income families, it is offset by the work incentives. Your evidence does not support that.
Dr Royston: In many of these cases, it is right that some of these parents should not be moving into work, because they have very severely disabled children. We are talking about children on the middle-rate care component of DLA. We know that, in many cases, they find it very difficult to move into work, because, for example, of higher rates of childcare costs. There is no additional support within the system to address that. In fact, one of the things that we suspect is that many families are using some of that money, which is paid through the child tax credit and those additions, to pay for childcare costs when they are in work, because they do have to cover those. Reducing that per-child component is going to make it harder for them to cover those additional costs, and so actually could make it harder for them to move into work.

Q168 Glenda Jackson: Quite apart from the reduction in the external social services that we are seeing going down the drain. Disabled people on Incapacity Benefits and ESA who are found fit for work will no longer receive an additional amount under Universal Credit. We touched on this slightly, but what are the additional costs that they will need to cover? Do you have any evidence of specifics? There will undoubtedly be additional costs.
Dr Royston: For many they are work-related costs.

Q169 Glenda Jackson: Do you mean getting to and from work and things of that nature?
Dr Royston: Getting to work and any adaptations they need to make, things like that. They need that additional support to enable them to do so. It seems very odd that the basis for determining whether somebody should need some additional level of support in work is the same test that is used for determining whether somebody is not fit for work at the moment. At the moment, many people with disabilities can get additional support in work through the disability element of Working Tax Credit, even if they are found fit for work under the ESA work capability assessment. The fact that that will not be true anymore under Universal Credit is a real cause for concern, because that test is very tough, as we know. I cannot quite imagine, having worked as a welfare rights adviser during the introduction of ESA, how it could be that somebody could move into work, go along to their work capability assessment and be found unfit for work. I cannot quite imagine that happening under the current circumstances. I think there does need to be some kind of other test, some kind of other definition, to give that additional support.

Q170 Glenda Jackson: That is an extremely interesting point, I think, the one you have just made. I am pretty certain you have raised it with the DWP. What has been their reaction to it?
Dr Royston: I cannot remember, to be honest, what their reaction was.

Q171 Glenda Jackson: They took it on board, do you think? You have been very fair in saying they are in a listening mode. These are the intricacies of what is being proposed.
Dr Royston: I think they are in a listening mode, and I hope we will find out more after Tanni's inquiry concludes. Hopefully, we will get a more complete response to that than we have had up until now.

Q172 Chair: The Government cannot say there is double funding here, can they—that the extra help to get into work can be covered by Access to Work or that the individual will qualify for the new PIP[2] when it replaced DLA? Both of those cover extra expenses and are appropriate for whether they are in work or out of work. What is the rationale for saying that that extra help should not move into Universal Credit?
Dr Royston: Obviously with the Access to Work scheme, we are starting to see indications from the survey—we would not predict what the final results we are going to get out of the inquiry are—that the Access to Work scheme is quite limited. Many people do not get that support. Fundamentally, DLA is there to cover other additional costs. It is there to cover the whole gamut of additional costs, whether in or out of work. There does need to be that extra money, that extra support, for people who are in work to enable work to remain sustainable and to enable them to remain in the labour market.
Alison Garnham: Some of the changes are a straight cut, like the reduction from £56 to £28 in the Disabled Child Premium. That is just a simple reduction, which will reduce people's work incentives. They will simply get less money.

Q173 Chair: You said that your report will be in mid-October. We were hoping for September, but obviously Baroness Grey-Thompson's report is not until mid-October. I don't know when we will be publishing our report, but I am just wondering whether your report would be available before our report. When you say mid-October, when would—
Glenda Jackson: So we can plagiarise it!
Gillian Guy: The date we have is 17 October.
Chair: If you keep to that, and I appreciate that Tanni has been very busy with the Olympics and the Paralympics, then that might help influence us—not influence, but it will certainly give us some information for our report.

Q174 Teresa Pearce: It is quite clear, from everything that has been said, that welfare is very complicated and Universal Credit was meant to

[2] Personal Independence Payment

simplify, and that is not actually happening because people are very complicated. One of the areas that I am quite concerned about is the interaction with local authorities. I think all of you have, at some point, said you thought the localisation of Council Tax support and the Social Fund will add complexity. Could you tell me why you believe that to be the case, Alison?
Alison Garnham: The aim of Universal Credit was basically to integrate benefits. Leaving some outside that of course means they are not being integrated, so you have this simple taper, but then you have an additional taper, a 20% taper, for Council Tax Benefit being administered elsewhere through local authorities. Giving people the answer about what happens when you take a few more hours' extra work through Universal Credit will not be the full answer, because you will need to then tell them about what is going to happen to their Council Tax Benefit and also about access to things like the Social Fund.
The other thing that is a consideration with those is that council tax benefit will be cut by 10% and Social Fund budgets have been cut by something, on average, of around 7%, judging by the letters that local authorities have been receiving. There will actually be less money available for them, particularly for families with children. Under the Council Tax Benefit changes, pensioners are being protected but families with children are not, so Local Authorities are in the difficult position of having to work out how to make the 10% cut. Of course that will have an impact on incentives to work for families with children.

Q175 Teresa Pearce: My constituency, for instance, is half in one borough and half in another. Those boroughs could decide to implement the council tax cut differently. If you lived one side of the road, you could have one eligibility. Do you think that Universal Credit is meant to be easily understood and fair, whereas it will actually depend on which borough you live in?
Alison Garnham: It adds complexity. The mistake about leaving it outside is you now have another complicated issue to work out, in terms of your entitlement, and that is what happens to your council tax. As you say, it will be a bit of a postcode lottery, with areas having different assessments potentially. Certainly Social Fund arrangements will be different from one area to another, because the deliberate intention has been to see a thousand flowers bloom, so you will not know what your entitlement will be from one area to another.
Gillian Guy: It also makes it very difficult for those of us giving advice, because we will see people from a variety of boroughs and Local Authority administrations, which will each do their own thing. In a sense, I feel some sympathy for them, because they are taking it on with a cut and with a ring fence around older people, which is going to make it extremely difficult and almost discriminatory in its nature about who that hits. The other issue for me—and it is a bit like passporting as well—is it is an example of where Departments are doing their own thing on certain areas, which together have a cumulative impact on families. I am not sure that the intended or unintended consequences of that have been fully worked through.

Q176 Teresa Pearce: Are you aware of whether the Social Fund that is going to be given to the local authorities to administer will be ring-fenced?
Gillian Guy: That is not our understanding.
Alison Garnham: No, there is no ring-fencing at all.

Q177 Teresa Pearce: It could be spent on anything.
Alison Garnham: It could be spent on anything. In fact, it was the deliberate intention that it could be spent on anything. In one area, it would be spent on debt counselling services or financial management programmes. In other areas, it will be cash payments. No one will have the complete knowledge that there is a service of last resort when they run out of money, which they do have currently with the Social Fund. There is going to be a real problem for local authorities because, where people used to queue on a Friday afternoon when their money had run out or they had lost money, at the Jobcentre Plus office, they will be queuing at the Local Authority. Local Authorities will have made their own decisions about whether they can respond to that.
Dr Royston: One thing to note, with regard to the Social Fund, is that not all of the Social Fund is being localised. The discretionary Social Fund is being split into two parts. One part is crisis loans for emergency items and community care grants, which is being localised. The other part is budgeting loans and crisis loans for interim benefit payments, which is not being localised and is being integrated into Universal Credit. With regard to both, there are different concerns. With regard to the localised scheme, there are real concerns, particularly that it is going to be harder to get cash grants and loans rather than specific items, which may not help with some things, like if your electricity goes off. On the other hand, we have the elements that are being incorporated into Universal Credit, which I do not think we have had nearly enough information about. That is what they were calling "payments on account" to cover problems with benefit payments and to enable families to budget. They are the same things that the budgeting loans are meant to cover at the moment.
As I remember, quite early on in the discussions, it was not even clear whether everyone on Universal Credit was going to be entitled to receive payments on account in that way, or whether they would need to put some limitations on that for cost reasons. I think we need a lot more detail about how that system of payments on account is going to work under Universal Credit as well.

Q178 Teresa Pearce: Can I just ask you on housing benefit, there are quite a lot of people in one of the estates in my constituency who have an element of service charge in their rent. That is causing a big problem. Have you seen where that is causing a problem, where they cannot actually get housing benefit to cover the service charge element?
Alison Garnham: Yes. That will be translated into Universal Credit, because one of the simplifications is that people will not be able to get their service charge.

I know that women's aid refuges, for example, are very worried about it and say that nearly 300 refuges may have to close. One effect of simplification can be unfairness, and that is one of the things that seems to have gone.

Q179 Teresa Pearce: What are the key concerns around the introduction of the household benefit cap? What changes would you like to see made to the proposed operation of the cap?

Alison Garnham: Shall I give you a list? The first one is we need to exclude child benefit from its calculation. It is clearly unfair that mums with children should lose their child benefit in that way. Secondly, we think that people in temporary accommodation should be exempt from the cap, and that is because, very often, they are put in housing where the rent is extremely high. They cannot take the action that others are expected to take and find ways of reducing their rent; it is simply not possible. Either the Local Authority would have to make up that rent, which would depend on whether they could afford to do that, but their homelessness guidance does not allow them to just move people out of the area and could require the claimant to actually use their other benefits to make up the rent. They are going to be in a very difficult position working out what to do. Some housing associations are saying they will not be able to pick up these families at all, as a result of this. We think that is a clear case where people who are homeless and in temporary accommodation with high rents should be just excluded from the benefit cap altogether.

Then there are other issues about groups who appear to be out of work. For example, they are on statutory sick pay or on maternity leave. We think they should count as if they were in work and therefore exempt from the benefit cap, otherwise they will find themselves affected by the cap and then struggling to get back into the correct position afterwards. We also need to look at people who are employed who are paid term-time only, for example, and the other part of the time might look as if they are not in work, but in fact they are, but the work is seasonal in some way. There are a number of adjustments we think could be made.

Gillian Guy: There is also the general issue that the very existence of a benefit cap makes it sound like everybody is pushing up against that cap, and that is not the case. It is not the majority of claimants who are anywhere near that, so it gives an impression generally that is not right. The fact will be that it is the people who are the hardest up who are pushing at that cap, so we would like to see a better analysis of what the impact would be of imposing that in many of the instances that Alison has spoken about, but a lot of them cumulative.

Dr Royston: One particular issue that has just emerged—I don't want to go over all the issues with regard to the benefit cap—with particular regard to Universal Credit is the changes to how the in-work exemption from the benefit cap will work. At the moment, from April 2013 when the benefit cap comes into force, the initial route to an exemption on the grounds of the household being in work is receipt of working tax credit. Under Universal Credit, that is going to change and they have suggested that, instead, there will be a monthly earnings threshold, above which you have to earn in order to be exempt from the benefit cap. I think that is going to be set at around £430 per month; I think it is around that amount.

The real concern about that is that there are some key groups that are included within Working Tax Credit, which are entitled to Working Tax Credit, but may not be earning above £430 per month. For example, people on statutory sick pay who would be entitled to receive Working Tax Credit would be considered in full-time work for Working Tax Credit, but would not necessarily be receiving more than that level of entitlement and that earnings threshold. Similarly in some cases, people on statutory maternity pay and certainly on maternity allowance would again be considered to be in full-time work for the purposes of Working Tax Credit, but would not necessarily be above the level of the earnings exemption from the cap under Universal Credit. We could get some very vulnerable groups of, effectively, working people—people on sick leave or maternity leave—who are affected by the benefit cap. That really does not seem to me to be the intention of the policy.

Q180 Teresa Pearce: Do any of you understand how they will calculate earnings? Where do salary sacrifices come in? Is it benefits as well as actual cash earnings? Do we have any detail on any of that?

Dr Royston: I understand it is earnings for the purposes of calculating Universal Credit entitlement. I think that is how it will operate, but I am not absolutely certain of that.

Q181 Teresa Pearce: People's earnings are very complicated, especially in the hospitality industry, where a lot of money goes through tips and gratuities and not through pay. It is not easy, is it? One final question: one of the things that has come up time and time again is about the monthly payment and about the no backdating. Does it seem to you that this system has been set up, where it is being simplified, for the simplification of an IT system, rather than simplification for claimants? It seems to me we are saying we have to do it this way, this way and this way because that would be easier for an IT system to administer, but not easier for real people.

Alison Garnham: This is part of the problem with simplification. One of the reasons there are complexities in the system is because people's lives are complicated, and also they are trying to respond to need, and it is way of being fair. Rules have developed over the years to make things fairer. When you simplify, inevitably you end up with some situations where, although it is simpler, it is less fair. In Universal Credit, there are also some areas that are actually more complex. A lot of the existing rules have had to be poured into the Universal Credit models. A lot of the complications we already have will be replicated again in Universal Credit, so it is quite a tricky project to try to pull off. There are pros and cons with where there is simplification and where there is more complexity.

10 September 2012 Alison Garnham, Gillian Guy and Dr Sam Royston

Gillian Guy: Having said all that, probably all of us have welcomed some simplification of this system, which is just a minefield for people who cannot understand what they are entitled to. If people did understand what they were entitled to, we would be in a worse financial situation, frankly, than we currently are, because there are a lot of benefits left unclaimed. I think we can see the need for simplification. It is our duty, in a sense, to point out to the Government what the implications of some of that will be. We have already had several instances in this session where we have said, "Yes, that is simpler for the administration of the system, but that doesn't make it simpler for the claimant." That ought to be the guiding factor.

Q182 Chair: That it is simpler for the claimant. I cut you off earlier, Gillian, I am sorry, about direct payments for housing, because I thought it was going to come up in another section, but it has not done. Can you remember what you were going to say?
Gillian Guy: That was really just not to overlook the ceasing of the direct payment to landlords, for the rental payment, the housing benefit, simply because again if we are in a chaotic situation around budget management, and we are seeing a lot of changes happening, payments of the Housing Benefit over to the landlord could indeed be overlooked. We have had clients already come to us and say that they are themselves quite confused by the whole situation. They are worried about missing dates and want some assistance with that. That, of course, has pretty dire consequences if it is allowed to see itself through to its final course. We do not want to see people taken out of their homes, and then have a whole homeless situation that ensues, but it is a possibility.

Q183 Stephen Lloyd: This is a challenging one, because it was the previous Government that first started pushing this under the perfectly rational view that it was a way of helping people to take control of their lives. I remember at the time thinking this was going to be crazy and cause a lot of difficulty. Today, again in the Chamber, the Secretary of State was asked about this. He again stressed the line that it is important that we help people learn how to behave or act in a way that the majority of society does, and therefore it will help them. I still have profound concerns for the reasons that you have just mentioned but, between the three of you, if you had to choose, would you say to keep going in the direction of travel for the reasons we know, or to do that but have more flexible opportunities for local government, housing associations or landlords to get it paid directly? How would you solve the conundrum of governments believing that this is a key way of helping people learn how to manage in society? How would you square that?
Gillian Guy: I think it is not just governments. At Citizens Advice, part of our ethos is that we try to help people take control of their lives. It is not about propping them up in terms of advice to keep coming back to us to become dependent on us. It is really about giving them the wherewithal to take control. We fully understand that, but what we do not do at Citizens Advice is just close the door and say, "You will get on much better without us, and you are going to have to sink or swim." We really need to think this will not happen because we say it will happen. There again has to be that advice and support behind these people to be able to take that control that is on offer. When we look at the exceptions to it, we would rather they were not when things had already gone wrong and we were facing eviction proceedings, but earlier on to understand categories of people in certain situations, who are really going to have to have a very managed transition into this situation and a lot of advice and help to get them there.

Q184 Glenda Jackson: Is there also not an additional problem here—the increasing need for people to be housed in the private rented sector? If I simply look at my own part of London, there is an ever-growing reluctance on the part of private landlords to accept housing benefit claimants. I cannot see that situation being ameliorated if the money is going to go to the tenant, even if they get the place in the first instance. It just seems to me that that again is something that Government should be looking at very closely, because some of the rents are astronomical, before you get Housing Benefit. These are not just single-room rents I am talking about here; these are families looking for housing, and private landlords will not take them.
Dr Royston: It has always been a huge misconception that just doing a search on Rightmove for what properties are available to rent below the level of whatever the housing benefit maximum is for that local area means that that property is available. I remember when I worked in a Bureau we did a survey of local properties available for rent to see whether they were genuinely available for housing benefit claimants, and almost none where—just almost none. Nobody really wanted to take on housing benefit claimants. That was a particular concern, actually, for the single-room rent, because it is particularly difficult to find somebody who is willing to take you in and share their own property with you, if you are on housing benefit. You are absolutely right: one of the few things that does count in their favour is that certainty that the payment can go to the landlord. Taking that away could make it even harder to find those properties.
Chair: Andrew has been waiting patiently. His is the last section, which is on the implementation programme and impact monitoring.

Q185 Andrew Bingham: Implementation—obviously it is a huge reform programme. Do you think the timetable is achievable, in your opinion? I would be interested to hear from each of you.
Alison Garnham: I think it is probably not very long. One of the concerns about the Pathfinders is that we understand that the idea is that some of the easiest cases will be taken on first, for example single people, but I would argue that single people don't stay single all the time. They could become complicated cases quite quickly. People get partners, leave work, start work and do all sorts of different things. The length of time that they have given themselves is not very

long, and so there is limited time for findings to be integrated into the model in order to learn from them. In a sense, we have an indication that the DWP knows that, because they have changed the way take-on is going to happen in October 2013 anyway. It was going to be all new claimants, and now it is going to be segmented with just a few people. I think they have understood that. Our concern is that we need all the Regulations and all the guidance properly consulted on and understood before all of this starts, because there will be too much to learn in the process of the Pathfinders otherwise.

Q186 Andrew Bingham: Does anybody else have anything to add, particularly around the risks as well, which could affect it?
Gillian Guy: I think it is achievable, but the question is: what gets squeezed in order to achieve it? These are many of the issues we have been talking about, about understanding the implications. It is also having time to learn from the pilots that are under way, and making sure that they are put into the implementation and, as Alison has said, making sure there is proper time for consultation on guidance because, if we can get it and get it as near right as we can, then this stands a better change of success. The other thing is setting out some evaluation criteria now, which we can actually judge it by as it goes through implementation. That would be expected of us and I think we should expect it in return.
Dr Royston: I am really concerned by how much they are trying to do at the same time. In some respects, the timetable is a particular concern, given that they are trying to do Council Tax Benefit localisation and Social Fund localisation at the same time. It feels like it would be much more achievable if it was not made all the more complicated by trying to do that. In terms of the biggest risks, I think they are those issues of localisation. It is Council Tax Benefit, the Social Fund and making sure that the right safety nets are in place. The other thing is passported benefits, because we still not have seen a clear plan for what they are going to do around passported benefits, particularly around free school meals. We are very hopeful that we will get to see a consultation on what the Government plans to do about free school meals under Universal Credit as soon as possible, but we have not seen one yet.

Q187 Andrew Bingham: Obviously the Pathfinders start in the North West of England. My constituency is in the East Midlands, so it is very close to where I am. I would be interested to know—you have discussed it briefly—how ready you are to start supporting claimants from next year, in the Pathfinder areas, in your organisations. You have sort of answered it in an earlier thing, so I am just wondering if you have anything further you wanted to add to that really.
Alison Garnham: We are already getting very high demand from advisers on the front-line for training. They are very anxious to get themselves organised in advance, but they are paying for that themselves, so we are concerned that there may be even more people out there who need to be boning up on this, who just are not in a position to pay for it at the moment. Yes, that is a big concern.

Q188 Andrew Bingham: If that demand cannot be met, what is the effect on delivery?
Alison Garnham: I think it is going to be really serious and risky. It is one of the biggest delivery risks. If there is not face-to-face advice available on the ground, claimants will be really up against it. They will not understand it; they will not be able to simply apply straightforwardly. They need those advice services to be there waiting.
Gillian Guy: The other thing that is in the nature of advice services and the voluntary sector is that we tend to be a bit sponge-like and just keep soaking it up. The volume and scale of this are not such that we can do that, so there could be a tendency to say, "Well, you do this anyway, so it's just a bit of additional work." This is a major overhaul to the benefits system.
Andrew Bingham: It is the saturation point, to use your sponge analogy.
Gillian Guy: Exactly so, yes.
Alison Garnham: I am old enough to remember the implementation of the Child Support Agency. I did a lot of work on it at the time, and that was another huge system, hugely reliant on IT. It was not piloted and there was no advice in the field available for people.
Glenda Jackson: We are still mopping up after it.
Alison Garnham: We still have not mopped it up, exactly, so we need to learn from that experience. If anything, Universal Credit is even bigger than that, because it will affect even more people, so we absolutely have to be prepared in order to avoid those risks.

Q189 Andrew Bingham: Has the Government any plans that you are aware of to give you any extra resources to support you with this?
Alison Garnham: We know that they are listening on the fact that advice agencies and those of us who support advice agencies will need some resources, but we have not had any answer yet about it.
Andrew Bingham: You have not seen the colour of the money.

Q190 Chair: Would that money come out of the £2 billion that is anticipated to be the cost of implementation, or the £2.1 billion, although there seems to be some dispute about the figures—£2.5 billion, I think possibly?
Gillian Guy: It is also important just to say that this is not about "gimme, gimme", and that we can see an opportunity here for making a few bucks to give some more advice. This is about genuinely wanting to make the implementation, whatever happens in legislation, work for claimants and for the public. That requires us to have an investment to be there to give that advice to make it work. If we do that together with Government, it will be a better product than it would otherwise have been.

Q191 Glenda Jackson: You said Local Authorities and there will be other constituent partners in this,

because it is not just Jobcentre Plus, is it, or Atos? A huge range of people are going to be affected by this.
Gillian Guy: That is right.
Alison Garnham: The HMRC grant scheme was about £3 million over four years. This is arguably an even bigger scheme than that.

Q192 Andrew Bingham: You said something earlier about the guidance that will go from the DWP staff. Have any of your organisations been consulted about the content of that guidance? I think you sort of said that, if you could be, you felt you could actually help and make a difference.
Gillian Guy: I am sure we will be.

Q193 Andrew Bingham: But as yet not?
Gillian Guy: I think we are waiting with bated breath, as probably in October time that might start. The issue is whether we get sufficient time to be able to impact on it to make it work better than it otherwise might.
Dr Royston: Whilst we were very grateful to the Department for the consultations that they did give on the Regulations and the engagement that they had for a series of workshops, one concern was that all of those workshops were held within a two-week period. If people were away, as actually I was, for that two-week period, it meant that it was very difficult to participate. Even if people were around, there were about five different workshops held in that period. It would be very difficult for most organisations to attend all of them and they were very important to defining what the Department was going to do about the Regulations and identifying any issues. I would like to see a wider window—similar workshops but held over a longer period and more spaced out.
Alison Garnham: There is also the question of training of DWP's own staff because, given that so much will be left to discretion, they will need training on how to make those decisions so that they are not made unfairly. As well as seeing the published guidance, there may well be internal guidance that would also be useful to know about, so that we can advise people about that.

Q194 Andrew Bingham: When the DWP monitors the impact of this, where, in your opinion, do you think their priorities should go, in terms of impact monitoring?
Gillian Guy: They should enlist our assistance in that monitoring, because we will see some quite stark examples of what is going on as a result of the changes. As I said earlier, there ought to be some agreed evaluation criteria. If we are talking about incentives to work, did they work? What is the net impact of all of that? Is it simpler, from the point of view of the claimant as opposed to just administratively simpler? How much have we been able to move people online and are they able and capable of handling that kind of interface? Are there significant numbers of missing claimants, as a result of this, who have been cut out by that online system and we have not picked those up? Also think about where debt is and has it been affected. Has it gone up? The housing issues and all of those also ought to be quite closely monitored. We are in good positions to assist with that.
Alison Garnham: I would agree with all of that, but I would also add that we need to monitor those who are going to lose out financially, because we know that there will be losers under the scheme, especially the 1.4 million households in the bottom two deciles of income distribution, which are most likely to be affected. We will also need to monitor the areas where there is going to be a high degree of discretion around things like conditionality in sanctions and so on. We really need good information about what is going on with that to work out if it is working and how it needs to be altered, if not. Finally, we need to monitor take-up and those who are struggling to engage with the scheme; if we are right and there is not sufficient support and advice, then the assumptions that are being made about take-up—very heroic assumptions were made about take-up, which lead to the claim that there will be 350,000 fewer children in poverty, for example, but that assumes a higher rate of take-up. We need to monitor what is happening to that to be able to substantiate those claims and also to see what is happening that could put that at risk.
Dr Royston: The crucial thing for monitoring is localisation because, in some respects, that will be hardest for individual organisations to monitor. Council Tax Benefits—we have got 150 different systems across the country, potentially. Having some kind of monitoring of what is going on will be absolutely crucial and similarly for the Social Fund, just because it would be so easy for that un-ring-fenced money, for the elements of the Social Fund that are being localised, to just disappear. There does need to be clear monitoring of what is happening, how much is being spent and where that money is going.

Q195 Chair: Would it not have been a lot easier and a lot cheaper for the DWP to give the job to Jobcentre Plus to do all the advice work? They are going to have to train their staff anyway. Their staff are going to be making the judgments as to who gets the benefit, but also therefore they know better how to make a claim. They will also make sure that people don't fall out of the system; they are in a much stronger position to make sure that people don't get missed out and people are helped through it. Why have they effectively outsourced the advice to organisations like yours, but without the money, when the ethos of Jobcentre Plus, as of when it was envisaged, was not like the old Benefits Agency, when you had to know what you were entitled to before you went in, rather than going there to say, "I am now out of work. Help me to make a claim for what I am due"? Why are they not doing that?
Gillian Guy: I don't think the core business of Jobcentre Plus is giving advice actually. I think it is a very different skill set and a very different approach. I can see that Jobcentre Plus has to give some guidance on particular applications, rules and that kind of thing. That is quite different from setting out a person's circumstances, independently of the paymaster, to talk to them about how they might get the best for their families and their futures. That is very different. That independence and trust are very

important. It would require Jobcentre Plus—and I am not managing them thankfully—to actually engage a whole army of advisers to replace the kinds of advisers we are talking about here. They would need training and they would not present the kind of value for money, history and trust that we present here today. That is the piece I agree with.
Chair: You need the money in order to deliver the service.

Q196 Glenda Jackson: Also, there is a conflict of interest, isn't there, in terms of why the Government did not give it to Jobcentre Plus.
Alison Garnham: I agree with Gillian about trust and independence, but I think also part of the answer is there have been successive efficiency savings over the years in DWP, which have reduced the amount of staff available even to do the routine personal advice interviews that they are required to do in relation to welfare to work. It would be an enormous challenge to also have those people skilled up to be able to advise on the detail of Universal Credit.

Q197 Chair: Have you got any sense of the susceptibility of the whole system to online fraud? That is more of a technical question, but I just wondered whether that is something you have considered.
Alison Garnham: Inevitably.
Dr Royston: I am sure they have, but one of the concerns would be that balance between fraud and simplicity, enabling claimants to handle claims in the most effective way possible.

Q198 Chair: I was not particularly thinking of the claimant who makes an error because it is too difficult; I am thinking of organised crime. We saw that with the tax credit system that was shut down.
Dr Royston: What I am saying is that things like organised crime have an impact on the simplicity for the claimant. We have seen that with tax credits with, for example, the availability of application forms for tax credits. It is making sure that that balance is right between ensuring that people are able to make use of the system and, at the same time, preventing fraud.

Q199 Chair: There are issues around the groups who are going to lose out and there are issues around unintended consequences. I have got quite a long list, which I have already got from you all today, in those two groups. Without going through what I have, are there any that you think we have not picked up because of the nature of the questions we have asked, where there are these unintended consequences or there are groups who will, by their very nature, be worse off, such as the second earners and things? Can you think of any others?
Alison Garnham: Yes. One of the things we did not talk about was the fact that incentives for lone parents and second earners will be worse under Universal Credit.
Chair: We picked that up from last week, so we have that on the list.
Dr Royston: I was pleased that Alison raised the point about the loss of the Housing Benefit disregard for support with childcare costs, because I think that is a crucial unintended consequence. We know from some analysis that the Children's Society has done that those families who are in receipt of help with childcare costs through Housing Benefit, as well as through tax credits—meaning they are getting up to 96% of their childcare costs covered, rather than 70%—are four times more likely to be living in poverty than families who are receiving help with childcare costs just through tax credits. That is because housing benefit is targeted at lower-income families than tax credits are, more generally. It is a real, real concern that there are about 100,000 families who get that additional support, who are going to lose that support and could be significantly worse off as a result. They are going to be the very families that Universal Credit was meant to help, the ones who are at the very border of making work sustainable and making it pay.

Q200 Chair: Is there anything you were burning to say that you have not said?
Alison Garnham: Actually I might have to give you a note afterwards, because there are quite a lot of small things that have changed that are in the area where it has been simplified, but turn out to be quite unfair.
Chair: That would be extremely useful.
Alison Garnham: Like young single parents, couples where they have different work eligibility requirements and the flexibilities for lone parents that currently exist in JSA to allow them to accept lower-hours jobs, for example, because of childcare responsibilities seem to be changing. We thought they would stay exactly as they are, but actually they are being reduced in scope, so there are worries around a whole series of areas.
Chair: There may be things that we will not pick up until it is implemented, because of human nature and the perverse things that people do. Maybe not; there are quite sensible things that they do. Anyway, can I thank you very much for coming along this afternoon? It was extremely useful, both your written and your oral evidence. It certainly will help us when we come to write our report.

Monday 17 September 2012

Members present:

Dame Anne Begg, in the Chair

Andrew Bingham
Glenda Jackson
Stephen Lloyd
Teresa Pearce

Examination of Witnesses

Witnesses: **Rt Hon Iain Duncan Smith MP**, Secretary of State, and **Lord Freud**, Minister for Welfare Reform, Department for Work and Pensions, gave evidence.

Q201 Chair: Can I welcome you to this afternoon's evidence session? This is the last evidence session we will be taking with regard to our inquiry into the implementation of Universal Credit. I think our inquiry seems to be quite timely, as it seems to have generated rather a lot of interest. Can I begin with an apology on behalf of the Committee as to why our numbers seem a bit denuded? It would appear that this Committee is a very good recruiting ground into ministerial office or, indeed, PPS office, so, unfortunately, four of the Government members have departed and, from the Labour side, we have one member who has recently lost her mother and another who has been in hospital with an operation, so apologies for the numbers, but no doubt we will still have just as many questions, and we have rather a lot of questions. Without further ado, if I can start by asking some questions on the whole issue of payment arrangements and the support for claimants: the target is that, by 2013, which is not that long away, 50% of claims will be made online. Do you think this is achievable, bearing in mind that less than 20% of Jobseekers Allowance (JSA) claims are currently made online?

Mr Duncan Smith: Can I say it is always a privilege to be here? I am very happy to be here and, of course, the two of us, together, we hope, will be able to cover all of your questions between us, and the full range of them, including some of the points we made earlier on about the issues around RTI[1] as well, and I think we should be able to cope with those quite happily.

Yes, I do, actually, because our position was that, by 2013, 50% would be online, but it is quite interesting in terms of the fact that society has moved on a lot from, sometimes, where my colleagues think they are. In reality, they are quite different. 83% of UK households have internet access. We are above the EU average. What is interesting, really, is, when we surveyed claimants, we found that 78% of all claimants—by the way, this includes tax credits *etc*—use the internet, and at least 41% carry on online banking. A very significant chunk of people who are actually in receipt of benefits are not just being online—the majority—but also, significantly, online banking, so we would do.

I had a long look at this with the officials and with David (Lord Freud), and we looked at this and we broke them down into three groups, recognising that, originally, when we started, 20% were doing this, but 30% were making an attempt at online and not completing the online processes, so there is a higher number who start by going online but found the present system too complex. So, essentially, we broke them down into three groups: the group that are willing and able, and that is about 30%, who, frankly, will not take any time to move across with a better system, and that is what the whole of Universal Credit is meant to be about. The other group, which is 33%, are willing but will require some support, because they are already literate and they just need to be got across on to this in terms of benefits. The last group—up to 37%—are not really used to this at all. Some of them are not literate; some are but have never thought about it and are resistant to it, and those will require the greater level of support, and that is how we work it.

Q202 Chair: Can we look, then, at that last group that you have just described?

Mr Duncan Smith: Yes, sure.

Chair: They, with the best will in the world, will never have access to the internet, either at home or, indeed, if they do not have it at home, are unlikely to be able to access it in a public place either. What help is going to be in place for them? Will there be a helpline number that they can phone automatically?

Mr Duncan Smith: There are two things. First of all, with respect, Chair, I do not accept that they will not be. I think part of the process of this is that many of those in that group will already have access, using telephones and using processes that involve them being online. The point that we are making here is that, for some other reason, it may be, for some of them, that they are not online; others, who are online but very resistant to the idea of having to do this—they are used to going into the benefit centres and they are used to doing it by telephone—are the ones who are resistant. There are plenty of things that we are doing to break them down: the first is to break those groups down into those who have some understanding of the internet, and what we are going to be doing is putting inside—and we are at the moment trialling that—the Jobcentres a much greater number of computers that are wired through to the claim process.

Q203 Chair: Will there be staff there to help people?

Mr Duncan Smith: Yes. The whole point is that in the Jobcentres people will be trained up to help them. I also want to put, alongside those, telephones so that they can go through to the existing telephone system—the telephone banks that we have—and they will be processed so that they will be helped through;

[1] Real-Time Information—a new system for collecting PAYE taxation, administered by HM Revenue and Customs

in other words, they are online and, if they are not sure about it, they pick up the telephone and they talk to somebody at the other end and they say, "Okay, right, let us get you on to the right page; let us get you down; you need to fill in that box; have you done it?" In due course, we want to be able to tie them up so that what they see and what the claimant sees is exactly the same page, so they can walk them through and make sure their claim is exactly correct, so they get used to it. Remember, they will only ever have to make one claim and, thereafter, it is just a check and adjust. They will not have to keep on making the same claim again.

The second bit of it is, for those who are capable of going home and doing it, because they have internet access, some training on this will have released them to do it from home. For those who really are not, we will keep them coming in. We are also looking, for those outlying areas, mobile support and access. We have been talking to the telephone company about this. They have mobile vans and systems, and we want to be able to use those as well for the people who find themselves in vulnerable situations. Have I missed anything?

Lord Freud: I think it is worthwhile explaining what we mean by "digital by default", which is, if you go on with separate channels—a telephone channel, a face to face channel and a digital channel—what inevitably happens is that people go on one of them and stay on the one that they have chosen. What we are aiming to do is converge people on to the digital channel.

Q204 Chair: So, you basically want to force them on digital to and you put up quite a lot of barriers to make sure they go?

Lord Freud: No, that is exactly not what I said. I said the digital channel is the main channel, but what you are doing with, for instance, the face to face channel, which we are looking at how best to do, is you will be supporting people, in a face to face meeting, in terms of getting them on to digital. It may be that, the first time, they need face to face support getting on to digital, and the second time and the third time, but, eventually, those people will be able to handle their own claim themselves, directly with the system. One of the things we are doing is, on a rather elaborate basis, trialling and piloting with the local authorities how to provide some of these services; particularly, how to get people on to digital, and how to get people financially included. That is the other area of concern that we have: that we get people financially and digitally included, so they can take a full part in the economic life of this country.

Mr Duncan Smith: It is important, of course. I will finish this because I know you want to move on with various other questions, but the really important point is to see this as a real positive opportunity. For quite a lot of the people who end up in difficulties, who are not almost immediately in the world of work, one of the big problems we have found, through a lot of the work that we have done, is that they are excluded from quite a lot of jobs that, these days, require some kind of computer literacy, so they are ruled out of those. They are very limited in what they can do. This is a very good opportunity to get those people back into the 21st Century, so they are able to take some of those jobs. Many of those jobs are being found by people coming from outside, so it is really a good opportunity to get them online and it will do them the world of good.

Q205 Andrew Bingham: So, really, the fact that they will be using digital access to this, and they will have somebody by their side helping them through it, is almost like a training to prepare them better for work as well.

Mr Duncan Smith: It is for those who need it but, as I said, at the moment, we treat everybody as though they have absolutely no skill in this at all. By default, they either come into the centres or they do it by telephone and somebody else does a lot of it for them. My point is an awful lot of those people would be quite content to do this, if we just get them on the right track. Even for those who do not have devices, we are working with companies to get those small internet-access devices, which are dumb terminals that they can use as well, if they want those installed for the first time in their home. We are looking at all of those aspects to help people get through. To get 50% in October I do not think is an issue at all, and I think we will be exceeding 80% by the end of this.

Q206 Chair: Can I just be clear: will people be able to access this on their smartphones? Large numbers of those who you have already classed as the digitally active have only got access not through major computers but through their smartphones. There are, obviously, security issues around that.

Lord Freud: What you[2] have to look at is this system is being gradually introduced over four years, and it is on a digital platform. Right now, the favoured digital platforms may be laptops or computers but, as you look forward, you can see that it can be on anything. It could be on a phone. Google is experimenting with putting it on glasses.

Q207 Chair: I think what is on glasses will be what they can read on the screen.

Lord Freud: What I am saying is that we are preparing a system that is capable of expanding through the decades of the technological development.

Q208 Chair: Have you quantified the resources that will need to be put in place to make sure there are the terminals in the Jobcentre Plus and there is that help? Is that anywhere? Can we get copies of how much that is all going to cost, especially as the numbers of staff in Jobcentre Plus have been getting cut over recent years?

Mr Duncan Smith: I am quite happy to talk to you and, if necessary, submit whatever it is to the Committee, but my general view about this—and I have been very close to this from the word "go"—is, right now, I think it will be far more effective and more efficient. Rather than costing us any great money, the truth is it is actually going to save us an awful lot of money at the end of the day.

[2] Ev 102

Q209 Chair: That is in the long term.
Mr Duncan Smith: Even in the medium term, to be quite frank. I am very happy, Chair, to submit to you anything you want about this. But it is an investment. Whatever we do here is an investment in changing people's lives and getting them in the situation where they are able to have a much improved quality of life and, also, are more accessible to jobs, quicker to get their things sorted out, and much quicker to find out their situation.

Q210 Chair: Even talking about the numbers that you have you are still talking about huge numbers, even by the end of rollout: 20% who will not be able to do the digital online form. How will you identify those people? What will be the criteria that will alert your Department to, "Here is someone who is going to need extra help and who is not going to be able to access it through the digital online service"?
Lord Freud: This is one of the key issues that we are looking at dealing with and we are currently working out how to deal with. The current system basically has something that falls to the lowest common denominator, as Iain said. What we are determined to do is to find the people who really need the support and provide that support for them, without encouraging everyone to require that level of support, and then we tend to move people up. We are doing a major exercise currently to work out how to find those people and find out what support they need. What we are finding is that it is wrong to look at people as being vulnerable as a group; what is right to do is to look at them having particular vulnerabilities and how we support them with those vulnerabilities.

Q211 Chair: What are those vulnerabilities?
Lord Freud: They are various things: incapable of using digital media; incapable of running a budget. These are various difficulties, which may be medical or disabilities. Those are particular vulnerabilities that will need particular support.
Mr Duncan Smith: The intention is to provide a face to face channel for people who we find in that situation, who will be helped to walk through this process and supported all the way through. We have always allowed for the fact that we provide this for the majority and, for the minority who have a difficulty, we provide support.

Q212 Chair: For people who at the moment have needed a welfare rights officer or who have needed help with filling in the form, will the proxy be able to access the online claim and will there be all sorts of barriers that will stop other people? There must be, in terms of security.
Lord Freud: We will have a system that allows trusted intermediaries to enter on behalf of those people and to help them do those things. We have a trusted intermediaries system here, and that system will run on.

Q213 Chair: "Trusted intermediary" does not usually apply to welfare rights officers, because some will go into the office and it will be a different officer, or CAB[3] staff. A trusted intermediary is a relative, but there will be people who do not have relatives or other people in their families who can help them.
Mr Duncan Smith: We do an awful lot of this work already. In a sense, there is nothing new about this for the Jobcentres. There is a whole variety of ways, as I said earlier on—

Q214 Chair: Yes, but it is a form, as opposed to—
Mr Duncan Smith: Yes, but that is exactly my point. Those same people, if they are in that kind of state, will, at the moment, be dealt with, closely and personally, by members of staff. They will also be dealt with sensitively if they are on the telephone. There is a whole process the Jobcentre already does that to. What we are simply saying is that the present system is not good for going online, because it is very messy, it is very notchy, and it is very difficult to negotiate. The new system we are designing, which I think you had a bit of a presentation on, is going to be much simpler and much easier and will tie them down in a very straightforward way. What we are saying is, for the vast majority who are or will be online, that system will help them get through; there will be some support for those who are left behind, absolutely. They may be temporary or they may be permanent; we will make sure they are walked through.
Chair: That is all assuming that the computer system works.

Q215 Glenda Jackson: Lord Freud, are you saying that you are regarding local authorities as playing a major role in this programme? If they are, are they being funded adequately? Is the equipment going to be provided to them? Will they be encouraged to employ and train increased staff? On the issue of the most vulnerable, the Secretary of State led me to believe that you already know what constitutes the most vulnerable. Do you know who they are, where they are and what their vulnerabilities are? For example, it is merely anecdotal, but for one of my constituents, who suffers from agoraphobia and has never left his house for 35 years, everything to date has been done for him by his mother, who is clearly ageing every year and has disabilities herself, and is a million miles from being able to use a computer in any way, shape or form. How are his needs going to be met? To pick up on the point that the Chair made, who is the trusted individual, and what kind of security systems are you going to put in place to ensure that the individual is trustworthy?
Lord Freud: Let's start off with the first set of questions about the local authorities. We have, just last month, announced a series of pilots on how local authorities can work with Universal Credit. We have them in 15 local authorities, where they are working on how you get people on the digital system, how you get the financial support, and how you help them into work and other aspects. I think we had exactly 47 proposals for these pilots from local authorities, and I was deeply impressed by the imagination and the focus of those pilots when you started to read them through, and how they were really concentrating on

[3] Citizen's Advice Bureaux

helping people as individuals in a way that I had never seen before. I think one of the best things coming out of Universal Credit is the way that you are getting a focus on people's complete issues and the way that they are addressed. I am very encouraged by those pilots. They are just starting. There was a meeting today, where they were all assembled to look at how to do it. They will take place over the next year. We will learn a lot of lessons from those pilots on how exactly local authorities should be involved. Then, as we move through the process over the next four years from October 2013 to 2017, and we start to get more people with great difficulties, we will have learned those lessons and learned how best local authorities, among others, should be deployed.

Q216 Glenda Jackson: Will the funding be there to assist local authorities?
Lord Freud: Clearly, it is premature to say exactly what kind of funding is required.

Q217 Glenda Jackson: We know the cuts they are having to carry.
Lord Freud: We have got funds to introduce Universal Credit. We are not concerned about who undertakes particular endeavours, and we can pay that on a neutral basis, so, in that sense, yes, we do have funding for it.

Q218 Chair: My understanding was that a large chunk of the £2 billion—or £3 billion; there seemed to be some argument in the debate last Tuesday—that was set aside to help introduce Universal Credit would go on transitional protection for those whose income would lose out, rather than in the mechanics of it.
Mr Duncan Smith: The mechanics are part of all of that. The whole point that we have been talking about is getting people online. All those processes are part of what we have to do. We are discussing with local government about how that lies and where that sits. There are other charitable organisations we are talking to. Can I just pick up one point?

Q219 Chair: Can I just pursue that, because I am not clear? My understanding is that a large proportion of the £2 billion or £3 billion—I never heard what the proportion would be—would be straightforward cash transfer to claimants to make up for the difference between what they were getting before Universal Credit was introduced and what they are getting after Universal Credit. That will eventually disappear as inflation takes over, so that, therefore, leaves a lot less money, in terms of the implementation, to go to local authorities—
Mr Duncan Smith: With respect, "less" and "more" are just terms. The reality for us is that we have to sit down with local government, which is what we are doing, and identify what they think they can do and where the overlaps are with things that they are already doing. For example, we are also localising the Social Fund—an area that will overlap with some of these vulnerable groups, so we are working on the details of that. Our point is, simply, it is a matter of process for us with them to decide how this is done, where this is done and who does it, and what the breakout on that is, so I would not really get caught up in the issues around the detailed funding at this particular point, because, within the envelopes of all the funding, we will find the responsibilities for this. I do not think there is an issue here.

Q220 Chair: Surely, though, that amount is capped.
Mr Duncan Smith: With respect, I do not think we should get into a debate about whether or not there is a finite amount within this. My point is we are obligated, with local government and with all the organisations. We planned for this originally. This is what we are discussing and talking to them about: where these responsibilities lie and to what extent some of those may be picked up already, and others that we may have to add to as necessary.
Can I pick up the point that Glenda Jackson made? Glenda Jackson gave a particular case. Can I say that, actually, that case would have to be resolved right now, as it stood, because, if you have an ageing mother, and the ageing mother is less likely, in the future, to be able to help them out, that is exactly what they already have to do: they have to find out how they will be able to deal with this individual who has that particular condition. That is not going to change for Universal Credit; in fact, what Universal Credit will do will allow us to focus in rather quickly on those sorts of people who have those problems. Rather than letting them, or making them, come to us, we will able to discover them much more quickly than we do at the moment, for the very simply reason of how we break this down and it all comes into one single figure.

Q221 Glenda Jackson: But you just said you know who these vulnerable people are.
Mr Duncan Smith: We do. We know them already. My point is you are giving us a case that exists already. That is already known. That will be passported across. My point is, for other new groups that have these particular problems, this process will allow us to get to them much more quickly than we do at the present.

Q222 Glenda Jackson: Who will be the trusted individual and how will that trust be defined?
Mr Duncan Smith: That is between the individual who requires this, the people who they trust, and the Department and the Jobcentres, and all those people will be together, as in all these cases, working out how we support that individual. One of the things about this, including things likely monthly payments, which we are going to come on to, and others, is that we can start hubbing up around the individual, rather than treating them on a single item at each point. We can begin to understand those who have vulnerabilities and who do not make it to the points that we need. Now we can really identify those and, instead of having a system set around them, have a system set for the majority, which allows us to deal with those who have particular individual problems.

Q223 Glenda Jackson: Who is going to be responsible for this interweaving of all the Departments? If I simply look at some of the most

vulnerable people in my constituency, it is not only Jobcentre Plus—it is the health service, it is local authorities, it could be mental health.
Mr Duncan Smith: With respect, Ms Jackson, nothing is going to change in that, because these are the same organisations that deal with them daily and get on with trying to resolve what it is for them that we need to do. The point about Universal Credit means, I think and believe, that we will be able to identify them in a far faster mode and in a more meaningful way, because we will be able to surround them with the relevant—let me just take an example: we will get to somebody who has a problem with budgeting much more quickly.

Q224 Chair: I think we have got that vulnerable people already exist in the system and we deal with them in the present system.
Mr Duncan Smith: Exactly.
Glenda Jackson: We do not.
Chair: Obviously whether we do or not is the argument.
Glenda Jackson: We definitely do not.

Q225 Chair: Universal Credit or any major reform to the welfare system costs a lot of money, both administratively and in terms of transitional protection. Local authorities are very worried that they are going to be given a great deal more work to do but on a diminished budget. That is made even worse by the fact that council tax benefit will be devolved to local authorities as well, with a 10% top slice, but they are not allowed to let this affect pensioners. What assurances can you give to local authorities that they are not going to suddenly be landed with a huge amount of extra work supporting vulnerable people without the money there? The trickle-down is not going to happen from the money that is there to implement the system.
Lord Freud: We will, bluntly, abide by the new burdens doctrine. To the extent that there are genuine new burdens, which we have transferred from our responsibility, the costs will have to go there, albeit costs that are judged to be reasonable. There is a big process. There is clearly quite a change in the localisation of some of the responsibilities that the welfare system would have centralised.

Q226 Chair: I think I have said to the Secretary of State before that the Communities Secretary of State's localism trumped the Secretary of State's simplicity.
Lord Freud: No. Let me just go through that. What we are transferring to local authorities is a whole range of responsibilities, where they can make better judgments on their local requirements: elements of the Social Fund; the decisions on DHPs[4], which are very substantial—next year, when you add them all up, DHPs are £165 million; and decisions on direct payments.

Q227 Chair: That just confuses the landscape. The whole point of Universal Credit, and the reason that you get people like me saying that in principle this was a good idea was it was meant to be that single working-age benefit for those who were on means-tested benefit.
Lord Freud: And it is.
Chair: But it is not.
Lord Freud: It is.

Q228 Chair: It was going to be, but then council tax went off to the local authority and the Social Fund went off—
Mr Duncan Smith: With respect, Chair, the whole point about this is that Universal Credit collects up those benefits that are relevant to work—the means-tested elements of it—and basically what we do is we simplify that process and make sure that they act as an incentive to go back to work. There has always been a reality that, around the edges of that, there are always particular conditions and issues that need to be dealt with sensitively and, we believe, better dealt with locally. So, you allow for local intervention because the truth is I think it is better to have things like the Social Fund locally, because at least then there is a chance they get face to face discussions with people.
We have had, in the past, Social Fund payments that have been many payments, so people are treating them as a kind of top-up to their benefits, and no one really asked the question, "What is their problem? What is the issue there?" What we are doing now is moving it to that point where you can start to deal with the problem that is at the root cause of why they are getting into situations where they cannot pay their debts, they cannot budget, or they are having difficulties. Now at least we can begin to focus, and that is the arrangement, really, that Lord Freud is talking about, with getting local authorities to work with us. These are discussions we are having with them at the moment.

Q229 Chair: But all of that takes money. Anyway, I wanted to move on to monthly payments, because quite a lot of the evidence that we have received is that there is a huge concern about monthly payments, not just about those who are used to budgeting either weekly or fortnightly, but just in terms of the nature of Universal Credit: if something goes wrong, in some cases it will be all of their income that they will not get. There are going to be people who will not manage their monthly payments—there have to be. Even if it is 10% or 20%, they are quite large numbers. What arrangements are going to be in place for those? Again, to go back to Glenda Jackson's point, how will you identify the most vulnerable, in order to give them an option?
Mr Duncan Smith: Can I just put the first base as to what we are doing and why we are doing it, and then hand the details over to Lord Freud? First of all, this is part of that process that says, "Look, the problem with the system that we have, apart from its complexity of different benefits, is that it is a system that is set around the problems of a minority of people in the benefits system, and the majority then have to be part of that". For example, with regards to paying people originally weekly, then fortnightly, the reality of direct payment, and all these things, are set around people who find difficulty in coping. We know they

[4] Discretionary Housing Payments

are in the system, but the reality for the majority is simply this: the majority of people, including with tax credits, cycle in and out of the benefits system, either through temporary work or completely in and out because they fall out of work for a period and they come in. 75% of those in work are on monthly payments at the moment, and that is a figure that is rising all the time. In other words, employers want to put people into monthly payments. One of our big problems is, when people fall out of work, they go from what is a standard monthly payment, often, to then having to figure out that they are in fortnightly. It is awkward for them. Getting this set for the majority is critical, so that we can get that cycle.

The second bit of this, which is important and is going to deal with the individual cases on this, is that, for those who have been longer-term unemployed and have got used to fortnightly, the point about this is now the barrier to work is that going to monthly payments once you are in work is the wrong moment to identify when you have a problem, because that means you are likely to crash out of work at that point, because you cannot cope. We need to get them to cope before they go to work, and centre up responsibilities and hub up these issues around them, so that we can deal with them, to get them through their problems. Lord Freud is now going to talk to you about some of the details.

Q230 Stephen Lloyd: Just on that, Secretary of State, what sort of temporary transitional arrangement would you then have for people moving from two weeks to four weeks? People in that particular cohort are severely financially constrained.

Mr Duncan Smith: Some of them are. I am going to get Lord Freud now to talk about that in detail, but I just wanted to make a headline point: this is a positive for those who are out of work. Remember, we did manage a transition from one to two. We were told by everybody it would be a disaster but it is possible to manage people from there to a month.

Lord Freud: Clearly, these issues are related. The direct payments, the monthly payments and the split payments—who gets it—are all areas which circle the same issue[5].

Q231 Chair: I have to say they are probably the same people who are digitally excluded.

Lord Freud: Exactly.

Chair: What are the arrangements for them? That is what I want to know. I want to know what the arrangements are for the unusual ones.

Lord Freud: The decision that we have taken is that it is not right to create, in Universal Credit, a proto bank account which makes the payments and does the splits and all of that. That is not the smart thing to do. The smart thing to do is to move that payment through into a proper banking system. That is what we have decided to do, and that means that, in that provision, we can make direct payments to landlords, we can reserve some money for discretionary spending, and so on and so forth. This is the classic, in the jargon, "jam-jar account".

We are announcing today, and we are revealing right now to the Committee, that we have just put out a document requesting expressions of interest from the financial community on how to create some of those products[6]. We are prepared to subsidise them, and the announcement talks about a running figure of up to £140 million, to make sure that people have the ability to manage their finances and then get support to do so. That is one of the most vital parts of modernising the system; we are allowing people to take control of their lives and get rid of the poverty premium that we have imposed on people by giving them dribs and drabs of money, so they can never buy anything.

Q232 Stephen Lloyd: I agree, but, Lord Freud, can I—

Lord Freud: Sorry, Stephen Lloyd, what we are doing is arranging an advance for people so that they do not see any gap in their payments. So, there is a provision that we have designed so that they can fill the hole, if they need to, as they move from a fortnightly system to a monthly system.

Q233 Stephen Lloyd: Good. I am very encouraged by that. That is the first I have heard of it, so I think that sounds like a very good idea.

Mr Duncan Smith: Also, we have a very good understanding at the moment that those already in difficulty have budgeting problems etc. What this does is bring all that information together. We can transition them over a longer period, if necessary. The real point is understanding which family has a problem. Then you work with them to get them through this process, so you may need to break it down over a longer period.

Q234 Stephen Lloyd: That dealt with a major anxiety of mine that that particular group, albeit a percentage, will then be driven to payday loan companies and what-have-you.

Mr Duncan Smith: Again, the majority are dealt with, and now we can focus on the minority. That is the key.

Lord Freud: That provision is in Universal Credit.

Q235 Glenda Jackson: Could I just ask: is the minority who will be afforded this change in payments the same minority of the most vulnerable, who you know about?

Lord Freud: Anyone transitioning on to Universal Credit from other systems will have a facility to take an advance to meet any shortfall for the period before the first formal sets of payments are made. We have put that into the system, so it is not a question of vulnerability; it is a question of whether they think that that is what they need. The interesting thing, as the Secretary of State pointed out, is that, when the Department transitioned from one week to two weeks, a lot of provision was put aside for exactly that reason. In fact, remarkably little of those funds were drawn down by claimants.

[5] Ev 105

[6] Ev 100, 102

Q236 Glenda Jackson: Can anyone moving on to Universal Credit, regardless of my definition, say, "I want to be paid two-weekly"?
Lord Freud: No, he can say, "I need an advance to bridge the gap as I go on to the monthly system."

Q237 Glenda Jackson: How long does that last—one payment, two payments?
Lord Freud: One payment, just to get you on; then you get a lump-sum monthly payment, and then you are on the monthly payment system.

Q238 Glenda Jackson: So, you get six weeks' pay.
Lord Freud: There is an interim payment advance.

Q239 Glenda Jackson: Of two weeks.
Lord Freud: Of two weeks.

Q240 Glenda Jackson: And then you go on to the monthly payment. So, in effect, is it a block payment of six weeks of Universal Credit? Is it two weeks and then four weeks?
Lord Freud: Depending exactly on the timing, if you are moving from a two-week system, in practice there will be an advance at the two-week point to bridge you over into the full one-month payment.
Mr Duncan Smith: Then we look at those, for example, who have serious budgeting issues and we have to work with the authorities on those people to make sure we get them through from two weeks to one month, and stabilise them and deal with their problems. That allows you to focus on those people separately.

Q241 Chair: You have said it is about treating people as grown-ups, as though they were in work, but actually it is the very opposite, because you are not giving them any choice whatsoever. A lot of people in work get weekly payments. In fact, a number of people pay their rent weekly. That is going to be quite difficult to transition into monthly, because there are not four weeks in a month; there are slightly more than that.
Mr Duncan Smith: As Lord Freud talked about, what this also means that we do is we work with people, through those banking products and others, to show that, "There are ways in which you manage your money far better than you do at the moment". That is the process, and he talked about those products that we are talking about. Someone referred to "jam-jar accounts" and various other direct debit processes, but the reality is a lot of those who have been working through in the trials, who have never been in banking, have moved to that very successfully.
The point is what we are not doing is treating them all as though they are infants; we are saying, "Okay, one of the barriers is that the vast majority of people in work are paid monthly. You are, for the most part, going to have to fit in with that." We have a system at the moment that is still set around the idea that somebody leaves a factory gate and gets cash in their pocket once a week or maybe a fortnight. Those days have long gone. For some, they are still there, but vast majorities want to go on monthly, and we have to get them ready for that. That is what this is about.

Q242 Chair: I have lots more on that, but just before I leave, I am not sure I have an answer about the extra resources for local authorities. Could I try this one then: will there be extra resources for the advice sector to assist with the transition to Universal Credit?
Mr Duncan Smith: The very simple answer to that is wherever we need it, if it is needed and support is needed, the Government obviously provides that, but my point is we have to figure out whether it is needed and where that will fall.

Q243 Stephen Lloyd: Can I make a plea then that we have a parliamentary helpline? Whatever the issues, strengths and weaknesses are, we will have a lot of people coming into our constituencies.
Mr Duncan Smith: We are going to have an MPs' hotline. Sorry, I do not know if we should have said that. We have agreed to have an MPs' hotline, so you will be able to get straight on to them.
Lord Freud: In response to Anne's question, we will find some funding for the advisory sector and we can commit today, I think, to have an MPs' hotline.

Q244 Glenda Jackson: When are you going to tell them that there is an MPs' hotline?
Mr Duncan Smith: When we have agreed it.
Chair: Glenda, we are not going to get through everything else. I really need to move on. We are going on to Real-Time Information, and Teresa has some questions.

Q245 Teresa Pearce: Thank you. Just before we go on to Real Time Information, Lord Freud, you said there were 15 local authorities in this pilot. Could you let us know who they are?
Lord Freud: Yes. It is probably easier for me to write to you.

Q246 Teresa Pearce: Also, I believe that there is a single district and single contact centre where you are piloting getting more people on Jobseeker's Allowance (JSA) online.
Mr Duncan Smith: That is not the same pilot. This is in other areas. There are a number of areas where we are doing that.

Q247 Teresa Pearce: No, I know it is not the same pilot, but there is also a pilot to get people on JSA online.
Mr Duncan Smith: Yes, there are a number of places. We can give you the list of those that are doing that[7].

Q248 Teresa Pearce: I was told it was a single district and a single contact centre.
Mr Duncan Smith: There is the pilot itself but we are already rolling out more computers into the Jobcentres.

Q249 Teresa Pearce: If you could let me know at a later time which single district and which single contact centre, and the 15 local authorities, that would be really helpful.

[7] Ev 102

Real-Time Information: witnesses, including the Confederation of British Industry (CBI) and the Institute of Chartered Accountants, have told us that many small businesses are going to struggle to comply with the timetable. I think Sage—a massive payroll software provider—did a survey across 1,000 small businesses, and 36% of them were unaware of the upcoming Real-Time Information changes. That was last month. Does that worry you?

Lord Freud: If I start this off, there was a consultation on RTI in summer 2010, and we adjusted how the RTI would work to use existing systems that companies already used to communicate with HMRC. Those were perfectly adequate for us to run our system of Universal Credit. We will get enough information from that methodology to be able to pay Universal Credit. What then happened is the software providers built the systems needed to adapt existing payroll provision, and the pilots started this spring. The pilots had, in practice, gone rather more smoothly than we would have expected—certainly than I expected.

Q250 Teresa Pearce: Is that because of the class of employers you were working with?

Lord Freud: They took a range, from very big to very small—right down to an employer who was the CEO who did his own payroll. They started with ten then went up to 300, and so on and so on. Currently, there are now, more or less, two million employees on the system, as we speak, going through it, and it has gone surprisingly smoothly. I say this because I was, as anyone would be, concerned about how a big change like this would go through, but it seems to have gone very well. You can tell that because the level of noise in the system, as people move over to it, is remarkably low.

What is happening now is that software providers and employers who have stood back a bit from this new system have now come forward, and HMRC have accelerated the introduction of new employers in this current period. We are on target to get a large number in by next April, when we start our Pathfinders, and to complete the transfer by next October. The view of the officials running the process is that giving someone 18 months' notice of a new system coming in when it is a relatively straightforward change is counterproductive, because they forget about it. A build-up that is relatively rapid in terms of introduction for this kind of system seems to be appropriate. That is what their experience is and they have done it building up carefully.

Q251 Teresa Pearce: Could you just clarify, because software suppliers had indicated to us that there was insufficient time for them to develop the products, because they had not had the specifications from HMRC. Are you saying that has been resolved now?

Lord Freud: Yes, that has now been resolved. There was early concern from the software providers about how much time they had, and that concern has basically gone away.

Mr Duncan Smith: Plus HMRC are offering free software now to the smallest companies, so that is already on their scales. It might be useful for us to run some of the numbers past them on the trial.

Lord Freud: Yes.

Mr Duncan Smith: It might be useful to you because, by September, there will be 1.9 million individual records, which is 1,500 Pay As You Earn (PAYE) employee schemes. Of those, something like 1,230 are small employers. By March 2013, they are talking about over six million individual records, and a quarter of a million PAYE schemes; April adds about another 1.2 million small employers, and by October about 1.6 million will have migrated to RTI, so you can see the build-up is reasonable. That is just to give you a thumbnail sketch of it. Of those, as I said, at the moment, there is no rush on that.

It is important for us to understand what we need. For Universal Credit, we have a much smaller subset of requirement than the whole of the RTI system. We are using—and we will use for Universal Credit until they get the whole thing completed—what is called the EDI, which is the Electronic Data Interchange system, which is already in existence. We also have alongside that an internet channel. These are things that employers and small employers already use for passing their data back and forwards with HMRC. We are using that and, from that, we need, give or take, about a third of the amount of data that is required for the RTI process from employers, so we do not need all of that. Universal Credit is already, essentially, on a track, which is part of an easier subset of that, so it is not a complete thing for us.

Q252 Teresa Pearce: Lord Freud, you said that the pilot had gone well. What did not go well? What did you learn? What issues were identified?

Lord Freud: I had exactly the same question as we got briefed on this weekly. The big concerns were data-matching: that someone would send information about an employee and there was no record of it at the other end at HMRC, so they did not know what information about who was being sent. What that meant was that the employers who sent dirty data along would be contacted to make sure it was matchable data. I think they are currently running at—and I will be nudged from behind if I am wrong—99.8% matching, so there is work on 0.2% to get that correct. That was the big issue. One of the issues was that they had put in a whole team to do the telephone responses of people with problems, and they were actually pretty under-occupied, because it was relatively straightforward. That was an internal issue around over-investment.

Q253 Teresa Pearce: It would be, though, the relatively compliant employer who would volunteer for this scheme, and there will be employers who are not compliant. To get them up to speed in such a short space of time is going to take a lot of effort.

Lord Freud: One can only go by the pilots and what people have trialled.

Q254 Stephen Lloyd: There is a real point behind that. Presumably, in the pilots you have ensured that some more challenging employers are included. There is no point going to a bunch of employers who are straightforward.

Lord Freud: Yes. The first handful were literally ten employers in the first month or two, then it was 300, and now it is 1,300. By then, you are getting people whose systems are not quite as straightforward, and you are learning the whole time. It is literally pressing one extra button. You do the payroll and you press one button to send that information over to HMRC. What happens, technically, is that that information goes to HMRC, the payment goes through the banking system, and there is a match of the two records. It is called the hash, which is matched across, and that is what happens, but it makes it rather easy, if the software is working. There were examples, originally, in the first couple of months, where the button was not switched on properly, but, if the button is switched on properly, it is a relatively straightforward process when you are doing the payroll.

Q255 Teresa Pearce: What you have, then, is an employer who runs the payroll, presses a switch and informs HMRC of what they have paid on the payroll; assuming they pay by BACS, that is then verified by BACS[8].
Lord Freud: Yes.

Q256 Teresa Pearce: What if they do not pay by BACS and they pay by cheque?
Lord Freud: I think 96% of payments are made through BACS, so, if they are not paid through BACS, it is a non-electronic check system.[9]

Q257 Teresa Pearce: You can understand people's reticence to believe that the HMRC computer system will work, given it is relatively recently that, if people had more than one job and were reported at the end of the year to HMRC, HMRC could not match those two people up, and people ended up underpaid. This is quite a short timeframe between that happening and now this, which is real-time, real information, so there is a concern about that.
Lord Freud: It is connected.
Mr Duncan Smith: Let me just deal with that point. One of the reasons for that is that, at the end of the year, what happens to people who are in and out of part-time work is their hours change quite regularly. Sometimes they add some jobs for short periods and then not at all, and the problem was they were meant to go and tell HMRC when they changed under the tax credits system, and us, obviously, when it affected their benefits. Of course, many of them got confused about this and did not, so, at the end of the year, they struggled to figure out how many hours. What happened was, in the present system, they would forecast and, invariably, their forecasts were wrong. What the monthly payment thing will do is that most of these companies, if they are half well run, are collecting the data as they go along. All we are saying is that they collect it, then they transfer that data—the moment they collect it to the end of the year. The only people who do not do that on a monthly basis are HMRC.

Q258 Teresa Pearce: I understand that but I was not talking about under-or over-payments of tax credits; I was talking about the number of people who came to us, as MPs, who maybe had a pension plus a part-time job plus something else, and their P60s and P14s were sent to HMRC at the end of the year, and HMRC had them for two years and never matched the data, even though the National Insurance (NI) numbers were there. All I am saying is people's confidence in HMRC developing this is low.
Mr Duncan Smith: Agreed.
Lord Freud: I think the two halves of your question are the answer to each other, because the problem—

Q259 Teresa Pearce: Clever me.
Lord Freud: If I can explain what I meant, the problem of a system which reconciles everything at the end of the year is really tough.

Q260 Teresa Pearce: But they did not even do that.
Lord Freud: It is tough. Some people will have up to 17 employments in a year.
Teresa Pearce: I quite understand that.
Lord Freud: The reason that it is attractive to HMRC to go to an RTI feed is that you are reconciling monthly.

Q261 Teresa Pearce: I absolutely agree, Lord Freud. It is attractive and, from a Treasury point of view, it means you get the PAYE in on time, instead of getting it as a late payment at the end of the year. I know it is attractive and I know it is an excellent idea; I just am concerned that they can actually do it.
Just to move on, we have the employer who submits the information. It goes to HMRC. It will be in real time, so then the DWP will know what they have to pay in Universal Credit and whether that needs to be flexed from month to month. Is the bridge between HMRC's computer and the DWP's computer built or working?
Lord Freud: We are testing that bridge this month.

Q262 Teresa Pearce: So it is not live yet.
Lord Freud: No, it is not live yet, but we are testing the mechanics of the bridge now, and we will be getting live feeds. What we are doing now is we are doing that with dummy data and we will be starting to get live real data for our Pathfinder trial in April.

Q263 Teresa Pearce: Do you have a Plan B in case it does not work?
Lord Freud: First of all, before I answer this, because I know you are not asking a "Did I stop beating my wife?" question, it looks to me as though this system is pretty robust. What we are seeing is we have a comfort level on this, but if it was not to happen or did not happen for a month, the Plan B would be that people would put in their own monthly figures in the way that the self-employed will put them in, so we can see how much they earn and pay them the appropriate amount to make sure that they have a standard living maintained on a month-by-month basis.

8 Banks Automated Clearing Service—widely used electronic processing system doe financial transactions
9 *Note from Witness:* RTI will be received in UC systems with a lower confidence than that attached to the verified electronic payments and this will feed through into the risk assessment that is being applied to claimants.

Q264 Teresa Pearce: Just a last question, which is not to do with that—it is to do with what we were talking about earlier—but about the telephone helplines if people do need to claim by telephone: will they be 0845 numbers or will they be local numbers?
Lord Freud: I think they are going to be local numbers. I think that is our decision[10].

Q265 Teresa Pearce: Because 0845 numbers are really expensive if you have only got pay as you go.
Mr Duncan Smith: You know, with our present system, that it automatically transfers around the country, so it always finds the blank spot where they can answer. They are called and moved to wherever, and they are always informed. That goes on at the moment.

Q266 Chair: How will an employee know whether their employer is on RTI?
Lord Freud: Clearly, there are some examples of people—and the people you are concerned about, as are we, are the people doing maybe just a night—very casual labour—where the employer and the employee need to work out whether that system is going on the RTI or not. We are currently elaborating how that will work exactly, because there may be examples were someone is paid cash casually and will need to report themselves directly. This is this difficult line between very casual employment and self employment. There is a line there and there will be specific guidance. In practice, however, the automatic check will be the payment coming through and people will be able to see their own—

Q267 Chair: The employer that is likely not to be on RTI will be probably a small employer employing some people, cash in hand, and not necessarily putting things properly through the books. They will also be the ones who will be paying the low wages, so the claimant in that situation will be the most disadvantaged—probably the one who is not computer-literate. You are, then, asking for a very sophisticated ability from the claimant to know that that information has not gone from their employer and let you know, month by month, how much they have earned to be able to go into the system and put all that information in. That is way beyond the computer abilities of many.
Lord Freud: Clearly, at these margins, that is exactly where we need to put some effort to make sure that we get absolutely clear which people—

Q268 Chair: Lord Freud, I do not think they are at the margins; that is the point. The client group are going to be the most marginalised anyway, and those who will be in the lowest-paid jobs, so they will also not be with the big employers.
Lord Freud: I was referring to someone who was doing labour one night and did not do it again. If you are doing it more than that, you are on the accounting and payroll systems of the employer, in legal terms. If you are on that system—it does not matter if you are paid cash or through BACS—it will come through and we will see it through HMRC. It is a very small number of people, doing the odd job for one person and never again, who we have a concern about. Normally, people operating legally have a legal obligation—everyone has an obligation—to put it through payroll and inform HMRC.
Mr Duncan Smith: We will have a link with HMRC to check that data. As leading on the thing, we check the data against it, so they will be picked up[11].

Q269 Chair: The evidence from employers' organisations, the Federation of Small Businesses and others, and from the accounting bodies, is that a large number—it might only be 10%—of employers do not have the digital capacity to provide all this information to HMRC. They are not doing it just now. They are doing it the old-fashioned way. If they are not doing it just now, the chances of them getting up and running—companies will have to be up and running from day one, because, in a Pathfinder, you do not know where these people are, and they could be in those exact employers who are not wired in.
Lord Freud: To the extent that we have a digital deficit with a small group of employers, we will have to address it, just as we are addressing it for the benefit claimants. Clearly, to the extent that there genuinely are employers who are not on the system, we will have to address it. One of the things we are looking at currently is to make sure that they can use an intermediary—in other words, an accountant. Normally, the people who are not digital are using someone else to do it for them, and one of the things we will look at doing is making sure that they can use an accountant, a bit like the trusted-intermediary system, to come into the system on their behalf.
Mr Duncan Smith: Anyway, you have to be on the system for HMRC. The point is that we will simply set up around them to make sure that their records are established with us and we check against those totals. That is, again, the exception rather than the rule. We are already talking to them about doing just that.

Q270 Teresa Pearce: An area that bothers me is the hospitality industry: a lot of people are on low earnings working as waiters and waitresses in casual work. The employer will, through Real-Time Information, declare the wages. What about the tips and gratuities?
Lord Freud: There are two ways that they work.

Q271 Teresa Pearce: If it's a tronc it'll be fine.
Lord Freud: Yes, if they are on the tronc it will go through on the RTI system as wages in the normal way.

Q272 Teresa Pearce: What if it is cash tips?
Lord Freud: If it is a cash tip, the employee will be required to put that into the Universal Credit system, so we make an adjustment.

Q273 Teresa Pearce: That would be the same for hairdressers?
Lord Freud: Yes. Tips are counted as income.

[10] Ev 105

[11] Ev 105

Q274 Teresa Pearce: I understand that. The problem will be that you will have people who are working as waiters and waitresses, and the more automated and the more hi–tech something is the more they think it has all been done. Will there be any sort of advertising campaign amongst people who work in those industries to make them understand that that needs to be declared?
Lord Freud: It is a good point and I think it makes a lot of sense, so I take the point.

Q275 Teresa Pearce: People think HMRC know everything anyway.
Mr Duncan Smith: What we will try and do is because a lot of it will be Universal Credit based on the entry is we will have to make it very clear from the beginning that this is an element they themselves have responsibility for as a cash payment. That will be clear on the Universal Credit entry form. The point is that the other stuff then automatically goes through, but it will be very clear that cash payments are their responsibility to enter. They will see that as they go in and therefore they will be asked that question, "Do you have cash?"

Q276 Teresa Pearce: Unless they work in an industry like that people do not understand. It needs to be that the advisers were aware and told people.
Mr Duncan Smith: Yes, and that is where we can deal with it at the front end. That is very important. They go onto it the first time; they see that box and they fill the box in.
Lord Freud: It is a very good suggestion.
Mr Duncan Smith: It is a very good suggestion, and we will pick it up.

Q277 Stephen Lloyd: Obviously, the whole issue of the earnings disregard has been a matter of an awful lot of debate. I have a series of questions on that. First off, Secretary of State, when do you expect to decide on the final amount of earnings disregard, and the standard allowed and amounts for children under Universal Credit?
Mr Duncan Smith: I cannot give you an exact date, to be quite frank with you, because it is something that we are constantly keeping under review whilst we look at the new information we get regarding how we balance this out. We will be publishing them as and when we fix them.

Q278 Stephen Lloyd: It is obviously only a matter of months before the whole thing goes live.
Mr Duncan Smith: Yes, it will be long in advance of that. My point is that we will certainly come and very happily explain them to the Committee when we do, but right now a number of these things we are going to adjust as we do the OBR[12] setup. After that process we should be in a much stronger position to publish them.
Lord Freud: The timing is likely to be with the Regulations, which we decided it would make sense to put out after the Autumn Statement.

[12] Office for Budget Responsibility

Q279 Stephen Lloyd: Okay, so on that basis if I can get—
Mr Duncan Smith: We will go through the OBR process before, but I cannot give you an exact date on that. It will be after. Within a reasonable time.

Q280 Stephen Lloyd: I would certainly like to take you up on that offer. Chair, I suggest that after we have those figures then that would be a very good time for you to come in, and we can quiz you on that. Are you able to give any sort of steer on how you expect they will compare with existing benefit rates, or do we just have to wait for the Autumn Statement?
Lord Freud: We have put out some indicative figures.
Chair: That was very difficult to read.
Mr Duncan Smith: I accept that.
Lord Freud: The fundamentals of it are that the elements are based on the existing benefit structure. The base position is that if you are unemployed on the full amount it is likely that it adds up to the same amount. That is how the structure is developed. The one area we are looking at, and we have said we are looking at very closely, is the structure of the disregards. We have had feedback that they are pretty complicated and we want to make sure that people can really understand what the disregards are so that they are incentivised to go to work, because that is the point of the whole system.
Mr Duncan Smith: That is the point I was making that until we are set on that there will be no point in publishing stuff that we are actually changing.

Q281 Stephen Lloyd: I can understand that, but certainly we will look forward to a second evidence session after the Autumn Statement.
A number of witnesses suggested that the proposed system, the revised system of Universal Credit would actually end up even more complex than what we currently have. That is not a view I particularly share, but I would be interested to hear from the Secretary of State how you would respond face-on to people who believe that, even if they may have agreed in principle with the original concept of Universal Credit, some organisations are now coming out with lines saying it would be even more complicated than what we currently have.
Mr Duncan Smith: The key issue to bear in mind is the impact on the person who is in receipt of this as they crossover into work. That is the key point really about the disregards. For them it is a much simpler experience once they are registered on the system. I do not see why organisations would be saying this right now because, as I said, we have not published the detail about these. For them to make assumptions about this is a little bit previous. My answer to it is we are already taking into consideration concerns that they may have and other objectives, but we learn during the course of this process. I do not think that is actually going to be the case. It is still ultimately a much simpler process and the key person to understand in that process is the person who is signing on, the person who is actually making the claim in the first place.

Q282 Chair: Can I just clarify slightly? It was the Children's Society and CAB. Your original proposal for the way that disregards would work around housing benefit, for instance, they are saying was simpler than the one that you have revised it to. That has made it more complex. They thought that in trying to help you have made it worse.
Lord Freud: As I just said, we are looking closely at the disregards again. While we are very comfortable with the level of the elements here, we are looking at the disregards to make sure that there is an element of simplicity and logic to them that people can understand. These disregards are a massive incentive for people to work because they rip down the marginal deduction rates for people, particularly at the participation rate level. They are vital, not only so that people have that financial incentive, but that people can understand them so that they act on them. To the extent that people are feeding back to us some concern about the simplicity, we are looking at that closely.
Mr Duncan Smith: My point is that when we come to publish them our belief is what we will publish is the best balance that keeps it simple but also gives good effect. That is the important thing. Simplicity is one of the issues, but the best effect on those entering work is the key to all of this—that is to say their marginal deduction rates are actually far better as a result of the decisions we make on these.

Q283 Stephen Lloyd: Again, within this cohort there will be a fairly substantial number of people who would define themselves as self-employed, all the various different roles. Again, some witnesses who gave evidence to the Committee believe that the proposed Minimum Income Floor rules for self-employed Universal Credit claimants may act as an obstacle to those wishing to expand their business. Is that something that has come within your understanding or concern?
Lord Freud: This was an area where there was quite a lot of feedback, especially through SSAC (Social Security Advisory Committee), and we have been looking at this closely. What we need to balance with the self-employed is a system that encourages people to be self-employed and then to go on ratcheting up their efforts. The current system has a significant number of people in it who stay at a very low level of activity and are being encouraged to stay in that activity through the tax credits system. We will have a far more active relationship with the self-employed than HMRC have under tax credits, in the sense that the low earning self-employed will be subject to similar conditionality as to the employed, so there is going to be a balance there, unless they are subject to the Minimum Income Floor and go above the Minimum Income Floor, which takes them out of that conditionality regime. We are aiming to balance up the position of the employed and the self-employed.
One of the issues we needed to address with the self-employed is to inject an incentive to allow people to be entrepreneurs. We will allow people a year where there they do not need to satisfy work-search or availability requirements if they are going into genuine—
Mr Duncan Smith: I think this is the first time we are saying this to—
Lord Freud: No, not this.
Mr Duncan Smith: The five-year one, okay.
Lord Freud: The Secretary of State has made another announcement so why don't you make the announcement on—
Mr Duncan Smith: You do your one-year and we'll do the other one.
Lord Freud: No, I think I've finished the one-year. That's history. Why don't you tell them the extra bit?
Mr Duncan Smith: Carry on. You carry on.
Lord Freud: As the Secretary of State basically made an announcement, we looked very closely at how often people should have the opportunity to have a year to build a business without any need to satisfy work-search or availability requirements. In the original proposition as set out in the regulations, that was a once-in-a-lifetime opportunity and we have had a lot of feedback from people saying that that is not economically sensible. A lot of people have one attempt that does not work and then they come back, and they should be supported again. As the Secretary of State said, we are now looking at allowing a further start up period every five years.
Mr Duncan Smith: Which is a direct response.

Q284 Andrew Bingham: You cannot have it for five years; you can have one every five years.
Lord Freud: Yes, so you would have a chance to build a business. It did not work and then you—

Q285 Stephen Lloyd: And that is new?
Mr Duncan Smith: It is directly as a response to some of the feedback from the small businesses. We still have not finalised that, but that is where we think we will end up. It gives us flexibility and it gives us a bit of fairness. The key point is that you get some of the groups that are actually static, sitting on zero earnings for a long period of time and receiving tax credits. That is not a good place to be, frankly, either. This is the point that Lord Freud was making. You need to get people actually developing through this process, rather like you would if they were employed.

Q286 Stephen Lloyd: Yes, you do. I am encouraged by that because the current proposal basically penalises failures and kills it stone-dead. That is daft because one of the things with starting a business, a small business washing windows or what-have-you, is sometimes it takes a couple of goes before it actually gets there.
Mr Duncan Smith: Yes. So this is why we are responding to that. We think that will help and we have actually talked to a number of the organisations about this.

Q287 Andrew Bingham: Just to get it clear in my mind, it is one year in every five.
Lord Freud: Yes. Where a person has started a new business after the previous one has ceased, another start up period is allowed. That is what we are looking at doing.

17 September 2012 Department for Work and Pensions

Q288 Chair: Can I go back to the Minimum Income Floor? That was the central question. The Low Incomes Tax Reform Group have a couple of worked examples, which you will find in the evidence they gave to us, which show that someone in employment earning a net amount more than the self-employed, because of this floor actually will end up getting more Universal Credit than the self-employed did. That is the basis of the question. At that level, because of the floor, it will be a disincentive.
Lord Freud: That is interesting. I have actually just been talking to the Group and they made the point. We are taking it away to have a look, just to double check. We are going to make sure that there is parity between self-employed and employed.
Chair: There certainly is not at the moment.
Lord Freud: To the extent that there is not, we will sort that out. That is a technical issue that we will sort[13].

Q289 Stephen Lloyd: You are looking at it. Another group, which can hardly be accused of being completely radical, were the Institute of Chartered Accountants. To use their words, they say they are appalled "that a simplified cash basis is being imposed on Universal Credit claimants without any proper consultation" on the underlying policy. I do not know whether you have come across that or how much consultation you have done with the chartered accountants.
Lord Freud: We are talking to various groups. The issue that is underneath this is the extent to which the rules for Universal Credit are the same or different from the tax rules of HMRC. There is an interesting chicken-and-egg here, because HMRC were consulting on their regulations and we had not had sight of their final position. What I can say is that we are settling down with them to make sure that we are running the two systems consistently. We will be making the appropriate adjustments to make sure that happens both ways.

Q290 Stephen Lloyd: Thank you for that. Explain to me again then—the big issue for them was why you have chosen a cash-based accounting system.
Lord Freud: In practice, it is the same system of definitions as HMRC use. We are just bringing that all into line. One of the issues that may be behind that is the issue of whether there can be carry-forwards of profits and losses. That might be the issue. That is something that we are going to look at. We have that kind of system for the employed, with large amounts and spreading it, so we will look very closely at that issue[14].
Mr Duncan Smith: Remember the point that we were making that our job here is to deal with the temporary cash shortfall. That is what we do. It is perhaps different from their understanding of what we do, which I think may be the issue.
Stephen Lloyd: I agree. I think that is a very significant announcement.

Q291 Teresa Pearce: I am a bit confused there because if you are basically doing your accounts monthly, weekly or yearly and you are doing them on a cash basis, HMRC would recommend against that and ask you to do it on accounts basis. You would do it on what you have invoiced rather than what you had actually received in cash. Are self-employed people happy that they have to have two sets of accounts?
Lord Freud: No, we will make them consistent—we will be taking the same figures and definitions where possible.

Q292 Teresa Pearce: So it will be the cash they actually receive rather than what they have invoiced.
Lord Freud: What is important is that this is not tax. This is Universal Credit; this is the welfare support for people.

Q293 Teresa Pearce: But it is going through the tax system.
Lord Freud: I know. It is the same figures, but what we are actually concerned about is how much money does that family have in their pocket that month to live on. Cash is real. We are using the same definitions, but we are trying to make sure the family can buy their food.
Mr Duncan Smith: What we want to end at with this point is addressing this point about this temporary cash shortage. This is a critical issue for us within this, so we are sorting that through and aligning it on that basis. We have a different set of priorities than HMRC.

Q294 Teresa Pearce: As you say, it is how much money you actually have in your wallet or purse that matters. That will be the amount of cash, cheque or whatever you would receive from your customers if you are self-employed, but HMRC try to discourage people from using that as an accounts basis. They try to get people to use a more sophisticated system. Maybe that is a chat you can have with HMRC.
Lord Freud: I can assure you we are having some rather deep chats at the moment with HMRC, but with a view to getting these definitions right so that people can make a report and the information there basically rolls over into their tax report. It is a relatively simplified reporting of the cash position. I think the issue that is concerning people is the carry-forwards when there are imbalances such as big expenditure one month and not in another. That is something we do need to look at.

Q295 Chair: There will be a case in some examples of people who are self-employed for end-of-year rationalisation, as they do with tax credits, because month by month you are not going to get an accurate account of what their true income is spread out over the year.
Lord Freud: That is the point. We are looking at that; we have a system for that.

Q296 Chair: It might be that one month they are overpaid. How do you claw that back?
Mr Duncan Smith: The point I was trying to make earlier on is our absolute base position has to be this

[13] Ev 100
[14] Ev 105

temporary shortage that we have to resolve. The rest will be resolved with HMRC over this. That is how it works.

Q297 Glenda Jackson: Forgive me for this, but I am going right back. The Chair raised the issue of evidence that had been presented to us with regard to the changes that you have instituted for housing benefit. I believe there was an announcement today that two categories of cancer-sufferers based on their treatment will no longer be regarded as being fit for work. What I am trying to find out here is what causes you to change your mind? Is it pressure, is it actually principles of fairness or is it simplicity? I welcome the flexibility in this particular instance—do not misunderstand me—but you have left an awful lot of people in a great deal of anxiety for a very long time.
Mr Duncan Smith: We are merging two different issues here. You are talking about the ESA[15] issues concerning how we treat people in the support group versus in the WRAG[16] etc. The point was we brought in Professor Harrington to look at all of these areas from the beginning of this and he has made a series of recommendations. He then consulted on the cancer, and then looked at other areas of cancer treatment. This is part of that process that we finally reached a conclusion on balance about what is best. He has made a recommendation and we are adopting the recommendation. That is how the process worked on ESA.

Q298 Glenda Jackson: That is an ongoing process?
Mr Duncan Smith: Ongoing. We did not just bring him in once. It is a perpetual process with him and that is how it has been tackled.
Lord Freud: If I can take the general point that I think you are making, which is how we have been working with outside groups. The creation of Universal Credit has been a very open process and we have really benefitted from having an open dialogue with numerous groups outside. We have made a huge amount of effort to have that communication, including indeed with parliamentarians. We have been incorporating those ideas and thoughts into the Regulations and the guidance to make sure the system works. This is a huge endeavour that we are going through, effectively rebuilding the whole of the benefits system. It requires a lot of input, careful thought and balancing from the community as a whole. We have had a lot of very constructive engagement right the way through this process to help us do it, and we do not have a monopoly on getting this right. We must get the feedback from people.

Q299 Stephen Lloyd: On that, I am going to take you back to one area that I still have a challenge with, even though I actually appreciate some of the announcements that you made today; I think they have been very, very valuable. It is back to the council tax thing; I know that there are some complexities around it within Government, Treasury, the Secretary of State for DCLG and the DWP. How do we avoid getting everything right—the Universal Credit, the IT, the earnings disregard—but, because of the council tax benefit being outside it, the overall process means people will not keep more of their earnings in low-paid jobs? To me, that is something I have real concerns about.
Mr Duncan Smith: Can I just first of all talk about the generality of this in terms of how we do it? The man who is involved in a lot of that is, of course, Lord Freud. The point is that we recognise fully that if these two things are not, in essence, clear with each other about how they work then you could end up in a position that I know, Mr Lloyd, you raised with me on the Floor of the House, which is you could have a counteracting process that makes those marginal rates higher. We are working very hard with local government to make sure that the system they set and the processes they undertake, and whatever they introduce, does not do that. That process is important for them to understand how it beds across with us. That is an ongoing process; we feel quite positive about it.
Lord Freud, do you want to talk about how that has gone?
Lord Freud: Yes. There are two key issues here. One is what the schemes are that the councils adopt and the data that they use to set their schemes; the other is the effect on Universal Credit. Clearly, on the second what is key is we were able to increase the disregards when the decision to move the council tax rebate over came up. We were able to increase the disregards, which meant that the number of overlapping tapers was very substantially reduced to very few. Now we are talking with the local authorities, through DCLG, and the devolved administrations to make sure that we are passing over the right data so that they know who could have a rebate or not. That is the process that is happening. In terms of the impact on the work incentives for Universal Credit, which is the big concern, the thing taking the strain there is the disregard.
Mr Duncan Smith: The second part about that is that Lord Freud talked about consulting them, which is what we are doing. Of course, we have just put out the guidance on these elements to the local authorities. I think it is 350.
Lord Freud: Yes.
Mr Duncan Smith: It has just gone out. This consultation has now gone to a new level for them to understand what our assumptions are under Universal Credit and, therefore, what their overlapping assumptions must be. That is the point of the discussion.

Q300 Stephen Lloyd: So you clearly appreciate and understand that if you do not get that bit right then all the work and all the direction of travel that you are trying to do—almost the whole success of Universal Credit—could be in jeopardy.
Mr Duncan Smith: The point that Lord Freud makes is an important one, which is had we incorporated that, it would have changed the disregard. What we have allowed for, to some degree, in discussion with them is some flexibility with regards to that so that we can actually buy in some of this change, or the effect of it. Also, our assumptions are out there for

[15] Employment and Support Allowance
[16] Work-related Activity Group

them to look at and for us to discuss. We want to get these down to a very marginal level, if any level at all.

Q301 Chair: I am still trying to work out what it is you have said there. I will maybe come back to you, because I still think it is going to be very difficult with regards to council tax because it is going to be added in at a later date. I have quite a few questions here on housing cost and housing benefit. Again, very often those with the highest housing costs are vulnerable or in specialist accommodation. What protection from the benefit cap will be provided for homeless households who are in temporary accommodation and face higher rents, but are unlikely to be able to pay the extra charges?
Lord Freud: There are two areas here, which are the exemption of supported accommodation and the temporary accommodation. This question is the temporary accommodation. That is based on the existing housing allowances, plus an extra charge.

Q302 Chair: Is the extra charge the temporary accommodation subsidy? Is that what that is?
Lord Freud: No, it is the service charge. I think the plan is to run at £40 on top of the LHA[17]. It is a simplified system. The strain there is to be taken by the increased level of Discretionary Housing Payments in that area, which is running in the first year at £75 million and the second year at £45 million. That is where the strain on the temporary housing is.

Q303 Chair: This is an issue that will not go away because there will be homeless people in temporary accommodation, which by its very nature is a lot more expensive, and in places like London will take you over the benefit cap.
Lord Freud: I think what you are referring to is the exempt supported accommodation.

Q304 Chair: We have a separate question on that. A family in bed and breakfast accommodation is perhaps the way to characterise it.
Lord Freud: We have pulled down the rate of payment to the LHA rate plus the extra temporary accommodation element, which is running at £40. That is the basic rate that we are running at and then clearly we have a protective mechanism, which we may have to maintain for some time.
Mr Duncan Smith: Many of those will be gone by the time we have reached the full detail of Universal Credit because the whole objective is that it is a smaller group that we are dealing with. My sense about this is you can look at these as a completely static group that are going nowhere over the next two years, or you can actually see them as a process of change[18].

Q305 Chair: They will be in a process of change.
Mr Duncan Smith: Exactly right. The point I wanted to make is we are already ahead of this, in the sense that we are not waiting until April before you kick this off. Jobcentre Plus have identified all the 56,000 or so families that are there, and are already now working with them. Many of those have already expressed real elements of change in their lives. Something like a third have said that they are now going to be moving actively to seeking work. Therefore, there are big changes coming in already to them before we hit April.

Q306 Chair: Would you not accept that this is likely to get worse because of the other changes in housing benefit that means a number of families are going to be homeless because they fail to pay their rent because their rent was higher than the new local caps on housing benefit.
Mr Duncan Smith: A lot of that is already settling through. We started that process some time ago, so this is the beginning of this year really. By the time we get to the period of the Universal Credit, a lot of that will be taken through on new contracts.

Q307 Chair: If you do not get this right, they end up on the street.
Mr Duncan Smith: My point is that we are not putting them on the street, and the key thing is that that is what the Discretionary Housing Payment was set for—something in the order of £190 million—to make sure that process, regardless of Universal Credit, is managed. What Lord Freud is talking about is how you use it in conjunction with Universal Credit, but nonetheless it would be there and is already being used by local authorities to manage that process now. The numbers of families we are talking about with the cap is actually a relatively small group compared to the housing benefit group.

Q308 Chair: They are a very disadvantaged group.
Mr Duncan Smith: Yes, but the whole point about why we are starting already with them early on the basis of the cap was to identify them and to sort them out. If they have to move, then we move that process forward; if we have to buy out a certain amount of change for a period of time then that is identified early. That is already taking place right now in the Department, having already identified that working with local authorities. All of those Jobcentre Plus centres are working with the local authorities and already have those names and details.

Q309 Glenda Jackson: On that last point, I wonder how you can guarantee that people will not be made homeless, because not everyone who is not in permanent accommodation is being housed by a local authority. Many of them are in the private rented sector and, contrary to what you told us many, many months ago, Lord Freud, rents have not come down. How are those families not going to be put out on the street?
Lord Freud: We can have an argument about the rents coming down, but in the early part of the year they were coming down.

Q310 Glenda Jackson: Not in my constituency
Lord Freud: I was using an average figure, obviously.
Glenda Jackson: This is a Universal Credit.
Lord Freud: I was using an average figure, not that specific.

[17] Local Housing Allowance
[18] Ev 101, 106

Glenda Jackson: Yes, but it is universal.
Lord Freud: Sorry, you distracted me.

Q311 Glenda Jackson: The private rented sector, where rents are not coming down.
Mr Duncan Smith: Really the question is dealing with the Local Housing Allowance.
Lord Freud: There are signs that there is some downward pressure on rents as a result of that, and clearly one needs to watch it month by month. It is very difficult to get a counterfactual, as you know. We are in a dynamic market; you cannot know that well what is happening as a result of anything specific. There is some sign of some downward pressure for this community.
Mr Duncan Smith: I do not see this group vastly as a static group. This is where we will part company. I think this group is quite capable of changing some of what they do at the moment. As I said, the survey work, on those groups whom we are already talking to, shows a significant number of them already now engaged, where they were not before, in seeking work to get into tax credits, which exempts them from the cap but does actually give them a position back in the world of work. There are changes already taking place with this group even before this has hit. I see these things in a dynamic sense, not in a static sense. The Discretionary Housing Payments are there to ease that process of change.

Q312 Glenda Jackson: Those groups for whom local authorities have a statutory duty to house do not actually change. They are invariably families with children or individuals with severe disabilities.
Mr Duncan Smith: They are, but there is a mix of groups. Some of them are already going to be affected by other work that we do, which is bringing more lone parents into the world of work when their second child hits five. Looking at the survey work, it is interesting that a third said they are now definitely on the scale to look for work, which they were not doing before. 88% are up to date now with their rent and coping with the original housing benefit rent changes. Only 1% so far have even had to report they have had to move. In other words, they see where the dynamic element in change is and they will attack that process with advice from us about how to improve their position. That is why I see this as a dynamic group because some assistance will improve the quality of their lives.

Q313 Glenda Jackson: So can you guarantee that no family or no individual with disabilities will be made homeless?
Mr Duncan Smith: I see no reason why anybody should be made homeless.

Q314 Glenda Jackson: That is not the question I asked.
Mr Duncan Smith: We are dealing across housing benefits and everything else with large numbers of groups.

Q315 Glenda Jackson: We are dealing with people.
Mr Duncan Smith: Local authorities, with respect, have to make these decisions. We have given that discretionary money. I do not see the need for that. In our discussions with them, most of them that we have talked to do not; some may want to take a political position on this. What I have just tried to explain, Ms Jackson, is that there is change already taking place. That is the process. Of course there are difficulties; that is why we set up that fund of discretionary payments and increased it for the cap.
Lord Freud: Just to answer that specific point though, people with disabilities or a household with someone with a disability, are exempted from the benefit cap for that reason. That is the structure of the benefit cap. It is not designed to capture people who are disabled.
Mr Duncan Smith: Do you want me to run through the exemptions here, because it seems—

Q316 Glenda Jackson: No, I think we have got the exemptions so I am clearly not going to go much further with that, because I am not getting answers that clarify the situation for me. However, there has been concern expressed about the service charges for supported housing, and in July 2011 you carried out a consultation on housing benefit reform in supported housing. When are you planning to publish your response to this consultation?
Lord Freud: I am not absolutely sure about the timing of our response, but I can tell you the direction of travel on it, which may be rather more helpful. This is one of the areas where there has been a great deal of concern expressed by various groups about the position of supported accommodation. We are very concerned not to undermine their position, so we will be making sure that for supported accommodation, the structure of getting the payments and support for their costs are not changed. We will look, longer term, at localising that support. Let’s just take the most dramatic issue—a hostel looking after women who are—
Glenda Jackson: Fleeing domestic violence?
Lord Freud: Fleeing domestic violence. They may only be there for two or three months, and that hostel is very concerned that setting up the whole Universal Credit system for them would just carve them out, particularly as their costs may be very different in structure to the normal housing costs. We have heard that and we will look to a system that does not rope them into Universal Credit and, in fact, we are looking at how best to make sure that support for those hostels, and all supported accommodation, is kept on an even keel.
Mr Duncan Smith: Either through Discretionary Housing Payments or even some direct payments.

Q317 Glenda Jackson: So you are categorically saying to this Committee that all supported housing—
Lord Freud: Exempt supported accommodation will be treated differently to other housing to make sure that we do not have the problem that people are concerned about.

Q318 Glenda Jackson: Who decides on the exemptions? You?

Lord Freud: No, there is a technical definition of "exempt supported accommodation".
Mr Duncan Smith: I can read it out if they want.

Q319 Chair: Can I give you an example? Will the single room rate, which you are putting up to 35, apply for people who are under 35 but in supported accommodation? A lot of the homeless hostels where people deal with the young homeless have moved away from single rooms and in to self-contained flats. Under the basic housing benefit rules, they will no longer qualify for housing benefit for a single-room flat because they are under 35 and they only get the single-room rate. Because they are in supported accommodation, not only do they have that extra expense but they have they extra expense of living in somewhere that has on-site support.
Lord Freud: The definitions of exactly what we are talking about really matters here. There a group of accommodation, and the hostels I was describing is one of them, that I want to exclude at this time from the traditional housing element, and there are quite a few. The costs in those hostels can be very much higher because there are all kinds of security and support being offered, which Universal Credit is not best placed to deal with. You can see from the direction of travel I was describing a bit earlier, with the localisation of some of this support for the people who really know how it is best applied—it is much better going in that direction than in a national system.

Q320 Glenda Jackson: Sorry, I don't understand what you mean.
Mr Duncan Smith: Can I just remind the Committee that this is defined in DWP legislation already for the supported exempt accommodation. It is a very clear definition and it is that which we are talking about here. In answer to Ms Jackson on who defines it, it is defined in legislation. I can read it out if the Committee wants to, but it is there.
For those, we are looking to Discretionary Housing Payments, and also through an option to pay direct, in response to their concern that they would have a problem if it were through Universal Credit.

Q321 Chair: So those providers already know who they are and know that they will have that protection.
Mr Duncan Smith: We are talking to a variety of groups who are involved in that.

Q322 Chair: I do not think the individuals know yet.
Lord Freud: This is news. We are telling you something that has not been broadcast. We have decided to go down a rather different route for the supported exempt accommodation in response to the real concerns that we heard when we put out the draft.
Mr Duncan Smith: From consultations.

Q323 Glenda Jackson: Could I clarify something here? The list of supported exempt housing is already out there in the public domain as published by the DWP. What you are now telling us is that the tenants of those exempt supported accommodations will be exempted from the limitations with regard to housing benefit that will apply to everybody else under Universal Credit.
Lord Freud: What will happen is they will claim Universal Credit without a housing element because the housing element will be supplied through a different route because we are talking about a very different cost base for those very vulnerable people.
Mr Duncan Smith: For a particular short period of time, but they are defined very clearly. The accommodation is defined clearly, and groups like Women's Aid, Homeless Link, Refuge and Mencap have all made it clear that they are concerned about this, so we said we would go away, look at this and see how we will do it. This is basically what our response is.

Q324 Chair: And you have now made the announcement today.
Mr Duncan Smith: Yes. I did not know we had not made this announcement.

Q325 Glenda Jackson: You did say that you estimate that people are only there for three months. That certainly is not my experience.
Mr Duncan Smith: He was using it as an illustration.

Q326 Glenda Jackson: It is a very rosy illustration.
Mr Duncan Smith: It was an illustration about the temporary nature of the accommodation.
Glenda Jackson: Yes, but temporary can spread out for quite a considerable period of time.

Q327 Stephen Lloyd: A classic example is Refuge.
Mr Duncan Smith: They have all made good, common-sense recommendations. They have talked about it. This is what the consultation on all these things is about. We looked to see how we would do that. We discussed it; Lord Freud has been discussing it, and that is where we decided actually on this that it may be necessary on those two categories, either using DHPs or maybe through direct payment to the providers, one way or another, that would be how it would be. As Lord Freud says, then it is without the housing element inside Universal Credit.

Q328 Glenda Jackson: Does that cost all come out of your budget?
Mr Duncan Smith: Yes, but it is quite a small number.
Lord Freud: What will happen is we have a certain amount of budget for these groups currently, and it is just a question of how that money flows through, so this is not a cost-cutting measure. This is about making sure this money flows through in a way that does not undermine a sector that is really important for some people who are in real extremes.
Mr Duncan Smith: Can I say there is one stage further too? In the short term, it is looking at taking this through, and then, in the longer term, developing a much more localised funding system that draws more on local knowledge and makes it much more responsive. That is essentially where, in the longer term, we are looking to go with this system. It is not a temporary measure. We want to develop that into a

system that actually works to the benefit of those who find themselves in these difficult circumstances.

Q329 Glenda Jackson: But not dependent on local authority budgets.
Mr Duncan Smith: No, this is about local knowledge, not local budgets. This is using local knowledge. Like the Social Fund, we are simply saying that we do believe that when you get local knowledge you will make a much better decision about these things and probably quicker too.

Q330 Glenda Jackson: With respect, that was a rather unfortunate choice because the Social Fund has reduced by 10% and is no longer ring-fenced.
Mr Duncan Smith: The decisions around the Social Fund, with respect, Ms Jackson, will be made better by that localisation, because now you will not continue to pay people through the Social Fund when in actual fact you should be working to help sort their problems out, not just keep giving them extra elements from the Social Fund without actually knowing why they are in that situation.
Glenda Jackson: I don't disagree with the premise. I would just be interested to see if these loaves and fish actually feed the 5,000.
Chair: I think we might move on from housing.
Glenda Jackson: Could we just ask the next one about paying housing costs direct to tenants?

Q331 Chair: I think in your reply to me at the very beginning you said that there will be provision to pay housing cost direct to landlords?
Mr Duncan Smith: We have always said that what we do is we make a system for the majority; we then look at what the problems are for the minority. We said all along we need to look very carefully at the trigger points that actually mean someone's simply not coping and temporarily you may need to take that in hand, but at the same time you want to get them back out of that and deal with their problems.

Q332 Chair: Local authorities and housing associations are really concerned about it.
Mr Duncan Smith: I know, and we are talking to them about that.

Q333 Teresa Pearce: Housing benefit will transfer to Universal Credit. Currently there are 20,000 housing benefit officers employed by local authorities. Those duties will transfer to Universal Credit, but those individuals will not be TUPE'd, I believe.
Lord Freud: That is right, yes.[19]

Q334 Teresa Pearce: I think the DWP wrote to the Local Government Association saying that it is not a TUPE transfer, but local authorities are stuck in the situation of having to negotiate with these employees without being the decision-maker. Would the DWP not negotiate with the representatives of these employees?
Lord Freud: We are looking at a system that is moving quite a lot of responsibilities locally, and we started to describe some of those. We are talking to local authorities a lot in this area, and councils are looking at how to provide services on a much more holistic basis. Over the next couple of years, there will be a re-organisation of service for the most vulnerable families and it may be that some of the people who are doing housing costs support now start to do a rather different and broader role. Clearly one of the things we are looking at in the local authority pilots is how they may act as intermediaries into the Universal Credit system. Things are certainly going to change. How they will change is something that we will be developing in the months to come.
Mr Duncan Smith: Can I just pick up something on that? There are two things that are very important. Remember: this is not October Big Bang. This is a four-year development process of different benefits coming through. This is a four-year process by which local authorities essentially have time to make some of those changes.
The second important point to make in respect of local authorities is that there are also three other areas that they are now having to take on. Local authorities themselves, with budgets that follow, are doing, for example, council tax benefit, Social Fund and Discretionary Housing Payments, which they were not doing before. My point about this is that it is not just saying there is a group that are not doing this anymore, but there are also requirements that local government is having to do, for which they will need to look at the resource that is there and decide to what degree they need to take some of that resource on. That is over a period of time, so I think there is plenty of time to resolve that.

Q335 Teresa Pearce: For local authorities who directly employ their housing benefits staff that might be more simple than for local authorities that contract that out and would have to renegotiate contracts. That would be more difficult.
Mr Duncan Smith: Not impossible.

Q336 Teresa Pearce: What support will you be giving to local authorities if, for instance, they have to make people redundant? Will there be any recompense to them? Will the DWP underwrite that?
Lord Freud: You have jumped from the "contracted out" into "their own staff". For the contracted out, clearly there is a time process.

Q337 Teresa Pearce: They will have to renegotiate those contracts.
Lord Freud: Yes, and the speed, pace and notice we are giving gives them time to do that. When we come to their own staff, as Iain said, there are quite a lot of roles being developed. There are new things to be done, and as the local authorities reorganise themselves and look at those roles, it may very well be that there is a circulation of people into new roles. Some of the skills of the people in housing are very

[19] *Note from witness:* The current position is that we believe the changes do not meet TUPE regulations so TUPE is unlikely to apply. DWP is currently in discussions with the LGA (Local Government Association), COSLA (Convention of Scottish Local Authorities) and WLGA (Welsh Local Government Association) on this subject. No final decision has been taken.

valuable elsewhere in the rest of Universal Credit. That is one of the things these pilots are about.

Q338 Teresa Pearce: Would the DWP be prepared to share the legal advice they got saying it was not a TUPE with local authorities?
Mr Duncan Smith: I am not inclined to share that advice. It is a matter for us to discuss with local authorities, with respect. It is for local authorities to resolve this matter themselves. My sense about this, to be honest with you, is that this is a matter being made much bigger than it is. The reality is local authorities contracted out, or with their own, have time to deal with this. Basically we never do share that information and I do not think it is necessary this time.

Q339 Chair: Can I just very quickly ask why it is that you are withdrawing mortgage interest support from claimants when they start work immediately, even if it is only for a few hours, whereas, if they were in rented accommodation, they would still qualify for Universal Credit.
Lord Freud: This was quite a tough area. We have been looking very closely at Support for Mortgage Interest, which, as you know, was inflated in what was supposed to be a temporary response to the 2008 crash. In our consultation paper, which came out last year, we looked at having a mechanism not of giving grants, which is what it is at the moment, but having them effectively as loans, which would come back later, potentially when people die and their home is disposed of. That is the kind of consultation that we have been looking at. We clearly need to think very hard at where Support for Mortgage Interest is going. That is our direction of travel[20].

Q340 Chair: The thing is, if it is withdrawn as soon as they go into work, all the things that you have trumpeted about how Universal Credit will work for people in mini-jobs or micro-jobs, somebody who has a mortgage is not going to take a part-time job because their—
Mr Duncan Smith: I don't agree with that. I really don't agree with that.
Lord Freud: Let me take that on. I gave you the outline of our direction of travel on this, which leads you to some shorter-term decisions. One of the key facts is very few people in receipt of Support for Mortgage Interest work part-time.
Mr Duncan Smith: It is around 5%.
Lord Freud: It is a very small number. If we were to structure the mortgage payments in a similar way to rental ones, on the taper, we would be looking at an enormous, unaffordable cost for something that is frankly not the direction of travel that we are looking at in the longer term. The cutover point depends on exactly the level of disregards, but by the time lone parents have done 10 hours on the minimum wage they are matching the existing system if they are on the average income support mortgage support.
Mr Duncan Smith: Ten hours means they will be better off.
Lord Freud: They are better off at ten hours. Bluntly, our decision was it was unaffordable to make it generic for everyone. The numbers of people affected were very small and their response to do 10, or 12 hours took them out of the problem. That is why we reached that decision.

Q341 Glenda Jackson: There are people who pay mortgage on a house which, for example, they have turned into two flats. They live in one and they rent the other. If they lost that then their tenant, who has paid their rent regularly, is going to lose their home.
Mr Duncan Smith: With respect, we do not think they will. It is the point that Lord Freud is making quite categorically here that it is a very small number we are talking about, but nonetheless, in this category, the amount of hours that has to be worked even under the present system would bring them to parity is very small. Under the existing disregard process lone parents would be very quickly in a better situation on Universal Credit at around 10 hours' work. To be fair, if you look at seven hours over the week, that is not a huge amount. In fact that is really quite a small amount. Under the present system they would be better off than that.

Q342 Glenda Jackson: We are on to reduced entitlements and passported benefits. One of the most popular passported benefits—the one particularly valued—is free school meals. How do you plan to deal with the eligibility criteria for free school meals when you introduce Universal Credit next year?
Lord Freud: The initial strategy is to try to leave this as unchanged as possible. What we are aiming to do is supply adequate information to the other Government Departments to allow them to run the system as they want to do it, and we are in active discussions on that data-share. The aim will be to have a system out for next October, when Universal Credit goes national. Before that on pilots, because the numbers are relatively small, everyone on Universal Credit who has children in school would be able to get the passported benefit, but the numbers are going to be extraordinarily small, because our design in that passporting period is typically to take single people pretty near the job market, as we trial it. Basically, there will be enough information on earnings to allow the Department for Education to reach a decision on where it wants to place any passporting concessions.

Q343 Glenda Jackson: You referred to single parents in your response, and the evidence that was presented to us by CAB was that, to a lone parent with three school-aged children, the value of free school meals could be around £1,100 a year. What they were arguing is that, to maintain that, you would have to earn four times to be able to maintain that level of providing your children with free school meals. Are you saying to us that these interim arrangements are only interim arrangements and, when a massive number of people are on Universal Credit, you will look again at what constitutes eligibility for free school meals?
Lord Freud: To start with, we will provide enough information to allow the Department to run the system so that, basically, a similar number and category of people will go on receiving the passported benefits.

[20] Ev 106

Q344 Glenda Jackson: Sorry, I do not understand that. What do you mean, "a similar number of people"? If there is an eligibility criterion, that is a criterion. What is the criterion going to be?
Lord Freud: The criterion at the moment is receiving a particular benefit. You receive JSA: the JSA amount is £64, or whatever the precise figure is. What we need to do is provide the right level of what the Universal Credit payment is to define the current point at which people receive these benefits. Basically, the strategy is to run the system on as closely as possible as the existing system. The problem that you are concerned about—and I am sure all members of this Committee are concerned about—are the cliff-edge problems of, as you earn more money and you drop off the eligibility, you lose your £1,100, and that is a disincentive to go to work. That is the problem that everyone is concerned about with passported benefits. We conducted an exercise last year where SSAC looked at this issue very closely and provided us with some advice, to which we responded. One of the most interesting recommendations to come out of that report was that we should look at incorporating these passported benefits into Universal Credit itself, so that people who took school meals were paid for them in Universal Credit, paid them out again to the school, for instance, and then they got tapered away as their Universal Credit was tapered away. That gets rid of the cliff-edge and we could look at doing that in a way that meant there was no cash out of anyone's pocket. We could do it payment-in-advance, if you like, or almost notional. That is something that we wrote that we would explore, providing generic passporting services for other Government Departments to allow them to have a very efficient and attractive way of providing passported benefits. That would be the strategic, longer-term solution, as we look forward to a fully rolled-out Universal Credit.

Q345 Glenda Jackson: In the interim period, then, you do not perceive any family losing their passported school meals benefit.
Lord Freud: Clearly, I cannot make a commitment to what another Department decides to do, but we will provide information to allow them to run on the kind of existing level of support, based on the level of concession that they currently look to apply.

Q346 Glenda Jackson: Is one of those Departments you are talking to the Department for Education, because free school meals are linked to pupil premiums, so, when they go, are some of the most deprived schools in our country going to lose money?
Mr Duncan Smith: That is exactly the point. With respect, they have legislation at the moment. They have to decide what they want to do with that. What Lord Freud is saying is, as these are already vested in different Departments as their own policy, they are not DWP policy, nor are they, essentially, within that remit of the means-tested benefit that we were talking about. They are separate to that. What we are saying to them is, "Okay, these are the things that we can do within Universal Credit. You have to decide whether that is what you want or whether you would want to do this differently to maintain those passported benefits", and that is a discussion that we have with them going forward.

Q347 Stephen Lloyd: It is, however, crucial, Secretary of State, because the very group that we are trying, through Universal Credit, so hard to break are the very group that we believe, as the coalition Government, the pupil premium will help us break.
Mr Duncan Smith: I am not here to answer the question of how the Department for Education resolves their issues in that respect. What I need from them—and what we are in discussion with them about—is how they, therefore, wish to see that interact with Universal Credit. They may decide they do not want to see it interact with Universal Credit, and that they would rather dispose of that locally on a set of criteria that maintains exactly the same people on that benefit, and that may be a possible solution for them. All I am simply saying is, from our standpoint, we are available to do that for the individual Departments. We talk endlessly about free school meals, but, as this Committee will know, there is the nature of the numbers of passported benefits, and they are all differently hooked, so they have to make that decision in each of the Departments. They have different trigger points. They are not all the same. They are quite different. Some are incredibly complex about the way they want to run, and some of those Departments may say, "Actually, we find it much easier to control those separately". If you ask me about Universal Credit, it has no bearing in the sense that it makes it better or less good for Universal Credit. For us, it is an issue that says, "We can do these certain things but these would be the criteria that we have to set for that, but you need to decide whether you want to do it like that or you want to maintain it in much the same way, in which case we can go on without it". It does not have a bearing on Universal Credit being successful or not.

Q348 Chair: With Universal Credit, it is virtually impossible to identify the triggers that you use to put in payment a passported benefit.
Mr Duncan Smith: When I looked through the list of passported benefits, some of them are unbelievably complex, as we know, and have a whole variety of different triggers that get you to that point, and some of them are to do with the benefits system and some of them are outwith the benefits system. My point, then, really, is that what we are trying to offer is that it affects the benefits system within Universal Credit. We can arrange for that but they have to decide whether they want to do it like that.

Q349 Chair: I think the fear is that there will be all sorts of different assessments in order to decide who is going to qualify for this money, rather than just, "If you are in receipt of that benefit—"
Mr Duncan Smith: With respect, Chair, as I look through it now, categorically they are already a complex range of assessments. That is the one thing I would say, outside of our remit, is incredibly complex, has been built up over a period of time, and it seems that half the people involved in it do not understand it, and certainly those in receipt of it have great—

Lord Freud: Can I just make a request of the Committee? If this Committee was to look through that particular proposition of putting it on Universal Credit coherently along the SSAC lines and recommend that we pursue that with all speed in the years to come, I think the Secretary of State and I would be most appreciative.

Q350 Chair: You are, then, saying that your mind is not made up but you have come up with a potential solution.
Mr Duncan Smith: We will discuss it with everybody and find out whether it matches their needs but, as I say, some of these are so complex and were set for different reasons, and some of them are not even hinged on triggers in benefits elsewhere. My point is that not all of them are the same. Free school meals is, arguably, perhaps one of the simpler ones, but the rest get progressively more complex. Then, of course, there is the devolved administrations issue around theirs as well, whereas the Department for Education does not come into these areas, so there are complexities alongside. We are in discussion with all of them about this and the best way to do it, frankly.

Q351 Glenda Jackson: Could I just clarify? Are you saying that the majority of passported benefits do not come out of the DWP—they are the responsibility of other Departments?
Lord Freud: Yes, that is exactly the reason they are called "passported".

Q352 Glenda Jackson: Yes, I understand that. What I am trying to clarify here is, if that is the case, surely that list of passported benefits should be very easy to define and handed over to other people. Would that not make your life easier? It would make it much harder for claimants, of course.
Mr Duncan Smith: Can I just answer that question by saying we are flexible. If that is how people wish to take their payments forward on a set of criteria, that is fine. What we are saying is, "If you wish to have it on the basis of it being brought through and triggered through Universal Credit, then we have discussed how to do it and it is up to the Departments now to decide that".

Q353 Chair: Your Pathfinder starts in April next year, and although it is for people who are on JSA initially, there will be people with children down the line who might have—
Lord Freud: Everyone in the Pathfinder is covered; that is not an issue.
Chair: Why they are covered?
Lord Freud: Because we will not have a system ready until the formal start. The numbers are very few and we have decided, in the interests of not causing any problems as we run the Pathfinder, just to say people on Universal Credit would have the same passported rights as they would if they were on the benefits system.

Q354 Chair: So, so long as they are on Universal Credit, they will get free school meals.
Mr Duncan Smith: That is not an issue. You could say it is an opportunity to look at this again, if the Departments want to look at how they want to do it. Some things have been built up over time and become very complex, and I think there may be a good opportunity for them.

Q355 Chair: The way that you are talking, it looks like the grandfather rights, or whatever you are calling it, might go on for some time.
Lord Freud: No. This is up to the Departments in terms of their budgets, but we will provide them the data to allow them to run on, effectively, more or less, without too much change, the same eligibility as the existing position, because our interest, clearly, is not to cause any problems or changes on an interim basis when there is, potentially, a strategic solution, looking a couple of years ahead, which actually makes much more sense for everyone and could be a very attractive solution, and certainly the SSAC-recommended solution.

Q356 Glenda Jackson: We also had evidence that specific groups of disabled people will have a significantly lower income on Universal Credit than under the current system, even when they are not fit for work. What is the policy rationale behind this?
Lord Freud: It is just not true.
Glenda Jackson: Oh, good. Fill us in then.
Chair: When the Severe Disability Premium goes, it is.
Lord Freud: We have maintained the amount of spending within the disabled community. We have adjusted how it is distributed. Clearly, there is transitional protection for those where there is a change. The particular change you may be looking at is the simplification of the child premiums[21].

Q357 Glenda Jackson: Which has been reduced, has it not, from £57 to £28?
Lord Freud: It is down from three levels to two levels. We spent an enormous amount of time debating this, and what emerged was there was a sense of unease about the definitions of which children fitted in which category, so we made a commitment to have a hard look at that within the next three years, just to make sure that we have disabled children defined appropriately. That is something that we will do. The numbers going in to Universal Credit in that build-up period—

Q358 Glenda Jackson: I am sorry, I hate to interrupt you there, but you are saying the "definition of disabled children". If we are looking at the Government's policy here, it is to enable people to get back to work, and that will not be the child—it will be the parent. For some parents, that is absolutely impossible, because of the disability of their child or children; there are others who could get back to work, even though their child is disabled, so that is the issue, isn't it, not the definition of the disability of the child?
Lord Freud: The only change that people are concerned about is the reduction in the levels of the

[21] Ev 106

disabled children, so what we have done is matched up—

Q359 Chair: No, I do not think so. I am sorry; it is much wider than that. There is no equivalent of the Severe Disability Premium of £57 in Universal Credit. Very separate from Disability Living Allowance (DLA), that helped to reflect the extra costs of a disabled person who lived alone and who would have to buy in care, because they would have live-in care. That goes, and there is nothing to replace that. The Disabled Child Addition comes down from £57 a week to £28 per week, so, again, there is less money going there. There is no equivalent of the disability element of the working tax credit for those who are found fit for work. I was going to ask a question on what the eligibility for the higher disregard will be for those with a disability and what happens to people who are presently on permitted work. Those are examples where what is presently in the benefits system—and there is also the one where you can be both a recipient and a carer, and both in the couple can and only one will be able in the couple, so you can define it differently, but there will be less money going in to those households, whatever way you look at it.

Lord Freud: We can end up arguing for ever on this. Can I just make one point, though, about the disabled and what Universal Credit does for them? I think Universal Credit is the most liberating thing for the disabled community that there is, because, at the moment, if you are defined as disabled, that is it—you are stuck. You cannot trial going into work. You can get a certain amount of money and then that is it—you lose it. Under Universal Credit, once you have been placed in the particular position by the Work Capability Assessment, you will be able to try to do some work and you will be able to work as much as you can, which may fluctuate.

The present position is, if you were to try to work and you were disabled on the benefits system, you would get off the benefits system and go into the tax credits system, fearful the whole time that whatever problem you had might recur two, three or four months later. Clearly, then, you would have to get off tax credits and get back into the benefits system, which, as everyone knows, is a complete nightmare. I remember, when I was looking at this a few years ago, I was given the shocking figure that, if you have a reasonably complicated claim, your paperwork was lost 40% of the time. Basically, people do not take that kind of risk. No one would take that kind of risk. With Universal Credit, you have a fluctuating condition. You can work: you can work full-time for those months when you can and then, when it is bad, you can go back into part-time or none for a period, and back and forth. You are liberated by the system in a way that the present categorisations simply do not allow. I think this is one of the most liberating things for people who have a disability. Do not forget: the number of people who are disabled for mental health reasons is 42% of the total and it rises after a couple of years of inactivity to 68%. Those are the figures that I remember. We are doing something more for people in this category, with Universal Credit, than has been done before, and I really think that is a liberating factor.

Q360 Chair: I know Baroness Tanni Grey-Thompson is undertaking a report that will come out in October into all of this. I think you have got a very, shall we say—

Glenda Jackson: Narrow?

Chair: I was trying to avoid saying "naïve", but I think you have got a rather naïve view of how many disabled people, or people with long-term health conditions, live their lives, and to get the Severe Disability Premium they needed care. That was specifically for care. We are talking about a group of people that have quite high needs, and in that case they will get their Severe Disablement Premium. We understand from other evidence there may be winners and losers in all of this, but there will be families or households that will lose out as a result of these changes, particularly with the removal of the disability premiums.

Mr Duncan Smith: Can I just ask one practical point, which is nothing to do with the questioning? I am wondering what time you are planning to go on to, because I have got meetings I have planned—I will get them changed if necessary, but I wondered what—

Chair: We have this section and one more section, so hopefully 15 or 20 minutes, if that is all right with you.

Mr Duncan Smith: Okay.

Q361 Stephen Lloyd: Again, I not only accept the narrative of what you are saying, I agree with it, for other reasons than politics, but underpinning that I do have that fear of, for instance—some of these are actually from groups like CAB—the Disabled Child Addition has been reduced from £57 per week to £28 per week, unless the child is receiving higher rate care under DLA. There is no equivalent to the Severe Disability Premium, of £58 per week, in Universal Credit. How do we manage those profound anxieties that people, mostly with quite significant disabilities, have that, as far as they can see, "Crumbs, I am going to lose £50 or £60 per week."

Lord Freud: This money is maintained in the disabled community. We are not taking money out here.

Q362 Chair: If there are winners, there are bound to be losers.

Lord Freud: There are losers in the structure of it, but, of course, the transitional protection is designed so that there are no actual cash losers.

Q363 Stephen Lloyd: If I am a disabled person hypothetically, going from £57 per week down to £28, what you are saying is the way Universal Credit is working is that that £30 will be made up in different ways within Universal Credit?

Lord Freud: Yes, because it is going into a higher payment for the severely disabled adults at £77.

Mr Duncan Smith: The higher rate is quite a significant increase, and the point about it is, that if I just list them, there are 10 variable payments, all coming off different benefits, and bear in mind that we also have DLA and ESA outside of this. The point is what has happened piecemeal—some of these disability benefits existed before DLA came in; in actual fact, none of this was really reconciled. What we are saying is all the money that goes into this is being recycled into the same support for disabled people, but a lot of what we looked at says, within this system, the group that are going back to work that need the biggest support was the most severely disabled. That increase, we think, will help them enormously through into work, and that is the point about Universal Credit for those, while they are seeking work.

As I said, there are other benefits around this: DLA, which is outwith the support for disabled people within the Universal Credit, and ESA, which gets bound into this. My point about this, when you look at it, is that this is money we are putting in with the balance to both simplify, get rid of the cliff edge for young people as they come into adulthood—which has been one of the problems that has caused issues—and to go to a higher settlement for those who are most disabled.

That is our purpose: cash protection on the transitional protection, so that we do not see a big, sudden fall out, but overall managing this so it makes it easier for people with greater disabilities to be sustained.

Q364 Glenda Jackson: DLA is an in-work benefit.

Mr Duncan Smith: DLA is outwith Universal Credit is what I am talking about.

Glenda Jackson: No, exactly.

Q365 Chair: Will there be any caps on the cash protection? In other words, if a household is losing £100 a week, or even £150 a week, as a result of the changes, will they get the full cash protection for that?

Mr Duncan Smith: Yes.

Q366 Chair: Until a change in circumstances or inflation.

Mr Duncan Smith: Absolutely. With this identified group, the point is identifying and working very closely with them to ensure that in the cases that are necessary that they are protected—maybe some of them should actually be, and are not, in receipt of DLA. My point is that this is such a complex issue—I know there are differences of opinion—that a lot of people do not understand what they should and should not be getting. It has got so complex. I looked at this list; this has built up piecemeal over a period of time, and no one has sat down and said, “How do we simplify this so we help people?”

Q367 Chair: I do not think anyone disagrees with you that it is very complex. Our problem is that even Universal Credit is going to be quite complex as well, and that is the difficulty of why other people have not done it. You have been brave enough to put yourself forward and you are doing it, where other politicians have feared to tread, perhaps.

Lord Freud: The fundamental point is we are reorganising disability payments to make them coherent, but we are not taking any money away, even without transitional protection. We are not taking any money away in the restructure, and then we are making sure that people who are used to particular payments are cash-protected, through transitional protection, and then the new structure comes in, which is more coherent.

The thing that has particularly warped the system is, because of the child poverty agenda over the last decade, child payments have been rising and rising, relative to adult payments, and that is what has been driving up the overall child disability payments. One of the reasons to get it back into line is to make an adjustment to get the system to be coherent to that. It is not sensible to have a payment running for children, which drops immediately when they hit adulthood even though they are still living at home, in practice, in many cases.

Q368 Glenda Jackson: When you say that there is no reduction in the payment, do you mean for the whole of Universal Credit when it actually it rolls out? There is going to be no reduction; no one is going to lose out. I would like to know how you are going to make reductions in your departmental budget? You have got to cut billions.

Mr Duncan Smith: We are not cutting the money there.

Q369 Glenda Jackson: No, I was referring to the Universal Credit.

Mr Duncan Smith: The disability payments and the transitional protection is already budgeted in our scope; it has got nothing to do with what we are doing in other benefit areas. Under Universal Credit this area of disability is the same going through to Universal Credit, and protected for those who are in through the transitional protection. It is in the budget.

Q370 Glenda Jackson: And you are still going to make the billions of cuts in your Department?

Mr Duncan Smith: What we are already down to do at the moment is separate to Universal Credit.

Q371 Andrew Bingham: Just about the implementation: you published the draft Regulations in June that SSAC have commented about. When will the final detailed ones be laid before Parliament?

Lord Freud: We will lay the final Regulations after the Autumn Statement now.

Q372 Andrew Bingham: The Autumn Statement?

Mr Duncan Smith: December.

Lord Freud: It is 5 December, I think. The reason for that is we have got to put all the Regulations out, and the Autumn Statement—

Mr Duncan Smith: Has a bearing.

Q373 Stephen Lloyd: It will be the same time when you present the earnings disregard figure.

Lord Freud: Exactly. The whole thing wraps up: it is a debate with the OBR, the Treasury; there is the Autumn Statement; and the structure of our Regulations.

Q374 Andrew Bingham: I am quite reassured with what we have heard today at various levels, but it is such a huge, revolutionary change. Where do you think the two or three biggest risk areas are still?

Lord Freud: I will say what I think the challenges are that we need to get right, and which we have been spending a lot of energy and effort on. That is to get the security system working properly, and that is at several levels. That is around identity, making sure that the people who go in are the people they say they are; there is a lot of cleaning up we can do with the existing base. There is the issue of cyberfraud: just to make sure the system is utterly robust; we are putting a lot of energy and effort into making sure of that. We must also make sure that we have got an operations capability of watching what is happening to the system, and we are introducing, a joint operations capability there—so we sit and watch the system and see what is happening as it runs. We are going to identity assurance, where we are going to open up a marketplace to make sure that people's identities are verified by externals and we take them through—that is a new thing—and we are introducing some of the most sophisticated cyberfraud systems, adapted from the banks and others, to make sure that we have a really robust system. Those are some of the biggest issues.

Mr Duncan Smith: The online cyberfraud is the area that is probably the newest in all of this, because it is not historically something that the systems have got, but a lot of other people have gone before, so we have been in discussions with companies like Amazon, for example, who have a very good record on this. We have also talked to other government organisations, who are specifically involved in this—I shall not necessarily name them. My point is we are working closely with them, bearing in mind that there are states that wish to attack things, and there are criminals out there who do a lot of online attacks and fraud.

It is making sure we have got the systems. You can have a very secure system; the securest system is the one that you shut down and nobody can get into it. Clearly we have to have a system that has a variety of different checks; if somebody goes through their data is held and we can use it, but nobody else can, and so it goes on. Those are the things that companies like Amazon have had to do, and have done very successfully over the years. It is about learning from what they do, because this essentially is a consumer product, just like theirs, but it has a particularly important feature, which is that we must always be ready for the moments when we have to pay people at all times, because not paying people is a problem.

Q375 Andrew Bingham: We have to get that reassurance across to people, because people will be nervous.

Mr Duncan Smith: Yes. It is certainly an area that I think, if you do not mind me saying so, Chair, you might want to look at in general terms, because it is an area that is the least understood sometimes by our colleagues in the House, about how cyberfraud and fraud has moved on dramatically since the early days.

Q376 Stephen Lloyd: Equally, picking up on what my colleague has said on getting that news out to the public, I think one of the biggest challenges that we face, because the media dialogue, for want of a better word, had—I am being a bit subjective here—been so hyperbolic over the last few months, is to ensure the people who you and I believe will benefit from Universal Credit get back to thinking that this is a good thing.

Mr Duncan Smith: Yes. Perhaps I can reassure you, Mr Lloyd, about this. On Thursday we are carrying out a major exercise in informing the media about what we are doing, in the same kind of detail that we are talking to you, looking at the system at the front end, talking about budgets, and talking about all the elements that you, as a Committee, want to inquire into. We are going to take them through that; essentially we are going to open up much more to external view and scrutiny, because we will benefit from it, and also because this is such an important system that I want people to learn what it is all about. There is a lot of ignorance at the moment in the media, and some suppositions made about things, which I think are important to tackle head on. The most important one is about everyone saying, "You must not have a big bang. You must not go straight off. You are not going to be ready on time." The truth is the time that we deliver this is 2017, when it is complete, and it is in, so that is over four years. We start that process in October. We do not finish it; it just begins. The whole point about the "agile" process, which I find frustrating at times, because we cannot quite get it across to people, is to understand that "agile" is about change; it is about allowing you to get to a certain point in the process—one leap: check it out; make sure it works; and as you go into the next leap you come up with something that says, "We can rectify some of the issues in this, and make that even more efficient". You are constantly rolling forward, improving and making more efficient things. There is a constant retrospective change that goes on to complete that system, and that is what will happen all through those four years.

Q377 Stephen Lloyd: Some of the announcements you have made today have assuaged some particular fears that I think some of us have had.

Mr Duncan Smith: You will see more of that now, because we are at the stage now where the system itself is getting to the point where we understand critically where that is, and we know now, therefore, where the trade offs are with the concerns that have come to us, and how we can deal with them.

Lord Freud: Everyone concentrates on building the machine, if you like. What is really interesting is the ecosystem around it. We have talked a bit about the opportunities here, and the opportunities are incredible to transform people's lives with the digital inclusion, and the financial inclusion. Those are two things that we think will make more social transformation in terms of improving people's lives. If we can get it right—and we are concentrating on it, and we are working on it, to make it right—we could really improve people's lives and what they do. That is our objective here, based on the introduction of Universal Credit.

Andrew Bingham: I think you are right, because the way online and digital has transformed people's lives in other areas, now it comes to this. You are dealing with people who are fearful of change, and fearful of moving onto the internet with things, and I think that is absolutely right.

Chair: It is part of our role, in making sure that you make it work, for us to scrutinise and be as hard as we can on you, to make sure, because if it does not work—that is somewhere where I do not think we would like to go. Can I thank you both very much for coming along? It was a longer session than we intended; it is dark outside, but I do appreciate your time. Obviously we still have some questions we did not ask. I hope we can write to you and get some answers[22], for some of the detailed stuff particularly. We will probably revisit this at some time in the future, but in the meantime you have given us enough to start writing our report.

[22] Ev 103–104

Written evidence

Written evidence submitted by the Centre for Economic and Social Inclusion

Introduction

The Centre for Economic and Social Inclusion (*Inclusion*) is the leading not-for-profit organisation dedicated to tackling disadvantage and promoting social inclusion in the labour market.

We support the Government's objectives in introducing Universal Credit, and believe that it has the potential to significantly simplify the design and delivery of the benefits system, improve returns from work and promote financial independence. However as the Committee identifies, there are a number of areas where the detailed design of Universal Credit could work against these goals. The system will remain complex for claimants, advisers and the wider public; there will be less choice in how benefits are claimed and managed; and it is not yet clear what support will be available locally, whether systems and processes will be ready for roll-out, and how Universal Credit will fit with other provision (from free school meals to localised Council Tax Benefit).

This response addresses in turn the eight specific areas identified by the committee. In addition, Inclusion's response to the Social Security Advisory Committee's recent call for evidence on the Universal Credit draft regulations is also attached.

Claims and Payments and the Provision of Support and Advice

Universal Credit presents a unique opportunity to address many of the factors that have undermined access to benefits in the past: complex claims systems, duplication of information requirements, and involvement of multiple agencies.[1] Therefore the creation of a single benefit has the potential to significantly improve access to benefits.

However, Universal Credit will also serve to reduce the channels through which individuals can claim benefit. As the draft regulations make clear, online claiming will be the only option available to claimants unless they fall "within a class of case for which the Secretary of State accepts telephone claims or where he is otherwise willing to do so." On the latest data just 19.6% of new JSA claims were made online,[2] while ONS figures show that almost a quarter of households have no internet access and that the rate of internet use decreases in line with income.[3]

The Department therefore needs to ensure that it has in place:

— A coherent strategy to ensure that those who can claim online do so.

— A digital inclusion strategy to ensure access to digital channels, and support to use them, for those who are currently excluded.

— The right support for disadvantaged claimants who may face barriers in claiming—we welcome the Government's proposed pilots to test local approaches to providing face-to-face support.[4]

— In our view, the right for any claimant to opt in to claim by telephone—at least in the early stages.

The Government has not yet set out its plans for how labour market support will be delivered under Universal Credit. Currently, support for jobseekers is overwhelmingly face to face, and previous trials of moving to telephone-based and other systems have found that the negative impacts as a result of fewer people leaving benefit more than outweighed any positive impacts in reduced administrative costs.[5]

In our view, labour market support cannot be "digital by default"—it must be face to face, personalised, and delivered by high quality, professional advisers. We would therefore welcome a commitment from the Government that support for those in the full conditionality group will be underpinned by regular, face-to-face, professional adviser support.

Developing the IT systems to Administer Universal Credit

Inclusion is not in a place to comment on the readiness of DWP and HMRC's IT systems. However, we would make two observations.

First, we would reiterate that maladministration, delays and complexity can significantly undermine claimant confidence and ultimately the willingness to return to work. DWP research on the administration of Housing Benefit found that perceived maladministration acted as a barrier to claimants taking up work due to concerns

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[1] See for example Finn, D; Mason, D; Rahim; Casebourne, J (2008) Delivering benefits, tax credit and employment services: problems for disadvantaged users and potential solutions, Joseph Rowntree Foundation

[2] DWP (2012) Proportion of new claims to Jobseeker's Allowance submitted online http://www.dwp.gov.uk/docs/jsa-claims-online.pdf

[3] Office of National Statistics (2012) Internet Access Quarterly Update, 2012 Q1, 16 May 2012

[4] http://www.dwp.gov.uk/newsroom/press-releases/2012/jul-2012/dwp082–12.shtml

[5] Middlemas J (2006) Jobseekers Allowance intervention pilots quantitative evaluation, Department for Work and Pensions Research Report 382

around losing the "safety net" of rent support.[6] Universal Credit will smooth the transition between out-of-work and in-work support—but it will depend on the link between the HMRC "Real Time Information" system and DWP's Universal Credit system. It is not clear that there are contingencies in place if that link is not ready or breaks down. This needs to be a top priority for the Department.

Secondly, it is imperative that DWP has learnt from previous major reforms to claims and payment systems. The 2004–6 Child Support Reforms were a case in point. While much of the blame for the failure of these reforms was placed on the procurement of the IT system, as the National Audit Office made clear there was a far greater catalogue of errors—including management failures, ineffective risk controls, and issues with staff readiness and culture.[7] The "agile" system being used for Universal Credit, although essentially untested, should serve to mitigate some of these risks but it will not mitigate all (in particular, risks around staff preparedness).

The "Claimant Commitment", Sanctions and Hardship Payments

The claimant commitment and out-of-work conditionality

The proposals for a claimant commitment build largely on the current system of Jobseeker's Agreements (for those on JSA) and action plans (for those on other benefits). There is limited information so far on how commitments will be drawn up. However the implication from the regulations is that this will be a commitment by the claimant to the adviser/DWP, rather than an agreement between the two. The distinction is important—in our view, the claimant commitment should set out the actions that the claimant will take to prepare or look for work, *and the support that they can expect in return*.

This agreement should also be underpinned by a clear statement of the level of support that claimants can expect in different conditionality groups. This should learn from the "Service Guarantees" used in Australia, which set out claimant responsibilities but also service standards, including a commitment to receiving assistance with preparing a CV, advice on how to look for work, information on suitable job opportunities, advice on skills, and other suitable support.[8]

For those in the "full conditionality" group, the Government has stated that jobsearch should be a full-time activity (that is, that jobseekers should spend as many hours looking for work as their claimant commitment sets out that they can spend in work). As we set out in our SSAC submission, the evidence suggests that *effective* jobsearch and quality adviser support are what matters.[9] Evidencing 35 hours of jobsearch a week would likely be unworkable and arguably disproportionate. Indeed the Regulations themselves make provision for the Secretary of State to waive the requirement where he is satisfied that "all reasonable steps" have been taken.

In our view, the current proposals should be reframed around taking all reasonable steps to look for and prepare for work, as agreed in the claimant commitment.

In-work conditionality

As set out in our SSAC response, we recognise that claimants with low earnings and high Universal Credit awards should be expected to take appropriate steps to increase their earnings. However this will inherently introduce new complexity to the how the benefits system is designed and then applied.

In particular, we are concerned that the current proposals appear to put the emphasis for in-work conditionality on "obtaining paid work"—ie taking steps to look for other jobs and being available at short notice for interviews. This could have the unintended consequence of actually making employers *less* likely to employ claimants of Universal Credit—as those employees will be required to continue looking for work, to be available for interviews at 48 hours' notice and to continue to report to Jobcentre Plus.

We consider that the approach needs to be far more flexible, personalised and targeted at providing support to those who are most at risk of remaining in low-paid, part-time work. In particular, we would recommend defining the objective of in-work conditionality around increasing earnings (which could come through higher pay or longer hours), rather than simply obtaining more work.

Conditionality and contracted provision

The Committee may also want to consider how this new conditionality regime will be applied within contracted employment programmes. Currently, for JSA claimants in the Work Programme, providers do not have a role in monitoring compliance with the Jobseeker's Agreement. Instead jobseekers maintain their

6 Turley, C and Thomas, A (2006), Housing Benefit and Council Tax Benefit as in work benefits; claimants' and advisors' knowledge, attitudes and experiences, Department for Work and Pensions Research Report. No 383

7 NAO (2006) Child Support Agency—Implementation of the Child Support Reforms: Report by the Comptroller and Auditor General

8 See for example: http://www.deewr.gov.au/Employment/JSA/Resources/Documents/YourServiceGuaranteeStream1.pdf accessed 15 August 2012

9 Hasluck C, Green A (2007) What works for whom? A review of evidence and meta-analysis for the Department for Work and Pensions, DWP Research Report 407

Agreement with Jobcentre Plus (including fortnightly signing) while separately agreeing an action plan with their Work Programme provider.

There are therefore two issues:

(a) Will the claimant commitment, for those out of work in the "full conditionality" group, continue to be defined around full-time jobsearch?

(b) And for those in work, will the commitment be defined around searching for additional work for those below the conditionality threshold?

If claimants face the same conditionality requirements on contracted provision as they do outside it, then this could create significant complexity for Jobcentre Plus, providers and claimants themselves.

In our view, claimants on contracted provision should be deemed to be taking "all reasonable steps" to look or prepare for work. In other words, their "claimant commitment" to Jobcentre Plus would be to take part in the programme, rather than to undertake a fixed number of hours of activity per week.

Sanctions

Sanctions are clearly important in providing a warning to claimants that failing to undertake agreed actions will have consequences. However that deterrent effect will only work where those consequences are understood, clearly communicated and fairly applied. The evidence[10] suggests that awareness of sanctions is low—even among those who have been sanctioned—and sanctions are more likely to be applied to already disadvantaged groups.

The Department therefore needs to ensure that under Universal Credit there is a greater focus on using the warning of sanctions to encourage compliance, with sanctions a last rather than first resort.

Where sanctions are applied, a comprehensive study for the Joseph Rowntree Foundation[11] found that while there appear to be generally positive short-term impacts on employment, these appear to be associated with lower-quality work, often negative impacts on earnings, and negative impacts on children and families. The increased level of Universal Credit sanctions, and the fact that in couple households effectively both claimants will be penalised when one is sanctioned, could serve to exacerbate these negative impacts.

Changes in the Income Entitlement of Disabled People under Universal Credit

As the Committee will have noted, Universal Credit will significantly reduce support for some claimants and particularly for disabled people who:

— Would previously have qualified for the additional premia in the tax credits and benefits system or to higher premia for disabled children; and

— Have caring responsibilities—through the inability to claim both the Carers Element and Limited Capability for Work/Work Related Activity element.

This has been set out particularly clearly in joint work by the Children's Society, Citizens Advice Bureau and Disability Rights UK.[12] We like others would strongly support bringing these elements in line with the current system.

The Impact of the Changes on Local Authorities

As noted above, the Government has announced its "long list" of local authorities that will pilot approaches to providing additional support to claimants. However while this is welcome, the impact of Universal Credit on local authorities will be wide-ranging—affecting their structures, staffing, the services that they provide, their supply chains, and how they work with partners.

We understand that the Department is currently conducting a "business change impact analysis" to understand the full impact on local authorities.[13] This is welcome, and we would ask that this is conducted in an open and transparent way, and in particular that it engages the range of organisations (suppliers, stakeholders, voluntary and community sector partners) that local authorities currently work with to support delivery of benefits and welfare. It should also assess the impact on local partners as well as local authorities themselves.

In addition, we would recommend that the Department conducts an urgent analysis of the interdependencies between Universal Credit and other major welfare reforms affecting local authorities. In particular, this should focus on the links with:

— Localisation of Social Fund—as the Communities and Local Government Committee found[14] there are significant concerns that the level of funding to Local Authorities will not be sufficient to meet the costs of establishing new schemes, that social services functions will not be best

[10] Griggs J and Evans M (2010) A Review of benefit sanctions, Joseph Rowntree Foundation

[11] Ibid.

[12] Disability and Universal Credit, Children's Society, Citizens Advice Bureau and Disability Rights UK; July 2012

[13] "Growing universal credit role for councils", Local Government Chronicle, 23 July 2012. Accessed 15 August 2012: http://www.lgcplus.com/topics/benefits/growing-universal-credit-role-for-councils/5047372.article

[14] Communities and Local Government Committee Fifth Report: Localisation issues in welfare reform; HC 1406; October 2011

placed to deliver local schemes, and that the lack of ring-fencing could lead to further reduced support. We are currently conducting research on local authorities' plans for replacement schemes and have found a mixed picture. Getting the links right between local replacement schemes and Universal Credit will be critical, particularly given the move to monthly payments of benefit under Universal Credit.

— Localisation of Council Tax Benefit. We agree with the Institute for Fiscal Studies[15] that localisation of Council Tax Benefit will undermine the benefits simplification that Universal Credit will bring, and that it has "the potential to reintroduce some of the extremely weak work incentives that Universal Credit was supposed to eliminate." Timescales are also extremely tight, with local authorities required to adopt local schemes by January 2013. We would favour the integration of Council Tax Benefit in Universal Credit. But assuming localisation goes ahead, the Government needs urgently to assess the implications for claimants of Universal Credit in terms of simplicity, ease of administration and improving work incentives.

The Level of the Earnings Disregards

We have set out in our SSAC response that we consider that earnings disregards should:

(a) Enable those that may face additional costs in moving into work to keep more of their earnings (parents with care, disabled people); and

(b) Provide a stronger cash incentive to move into work for particular groups (for example the longest-term unemployed or those furthest from work).

Therefore we are supportive of the Government's proposals to set higher disregards for claimants with children and claimants with a disabled person in the household. However we would define disability as any work-limiting disability—not, as the Department proposes, only those assessed as having a Limited Capability for Work.

The Department is also proposing to set lower disregards for those that receive a housing award in Universal Credit. There are arguments for and against this approach. In particular, for claimants without a housing award but with a mortgage, a higher disregard would improve returns from work and could significantly boost income at low hours or earnings. However it also increases complexity, particularly for those who may be entitled to a small housing award but at low pay could find themselves worse off by claiming it.

The Department has not set out what the disregard levels will be under its current proposed approach nor any assessment of the impact on different groups of claimants. We would urge them to do so, and to set out the impacts of alternative approaches. On balance, we would favour the same level of disregard for those with and without a housing award, as long as impacts on work incentives and incomes for those without the housing element but with housing costs (ie mortgage holders) can be mitigated through higher disregards for children or disability.

Finally, we are concerned that the Department's decision to abolish the In-Work Credit and Return to Work Credit will undermine financial incentives for those furthest from work. Research by *Inclusion* found that In Work Credit acted as a strong incentive for a small but significant group of lone parents: those who had spent long periods on benefit and had "patchy work histories".[16] These findings are consistent with other studies of what works.[17] Removing In Work Credit and Return to Work Credit could weaken incentives for those who are furthest from work and have spent the longest periods on benefit.

We would therefore urge the government to introduce a higher disregard for those with caring responsibilities or disability and who have been out of work and on benefit for more than two years.

Eligibility for and Operation of Passported Benefits

As SSAC have made clear in their comprehensive report,[18] there are no straightforward ways to replicate current passporting arrangements within Universal Credit—and the timescales are too short to fundamentally reform passported benefits. We agree with them that the Government should take this opportunity to take a longer-term look at the structure and operation of passported benefits.

In the short term however, we would support SSAC's recommendation that the Government introduces a "run on" of up to a year for claimants that lose entitlement to free school meals.

15 Adam S, Brown J (2012) Reforming Council Tax Benefit, IFS

16 Sims L, Casebourne J, Bell L and Davies M (2010) Supporting lone parents' journey off benefits and into work: a qualitative evaluation of the role of In Work Credit , DWP Research Report 712
by Lorraine Sims, Jo Casebourne, Laurie Bell and Malen Davies

17 See for example Hasluck C, Green A (2007) What works for whom? A review of evidence and meta-analysis for the Department for Work and Pensions, DWP Research Report 407

18 "Universal Credit: the impact on passported benefits: Report by the Social Security Advisory Committee and response by the Secretary of State for Work and Pensions, March 2012

Impact Monitoring

We understand that the Department is developing a full evaluation strategy for Universal Credit, which is likely to include qualitative and quantitative research, economic impact assessment, and a review of its implementation. We would strongly support this approach. The phased rollout of Universal Credit also means that there should be scope within this evaluation to measure the additional impacts of Universal Credit—for example on movements into and out of work, earnings growth, debt/financial security, housing choices.

As well as evaluating the impact of Universal Credit, the Department will also need to have sophisticated systems in place to monitor impacts in live running. This will need to include impacts on Local Authority services, housing providers (in particular social landlords' receipts), providers of employment and skills support (for example Work Programme providers), employers, and claimants themselves.

21 August 2012

Written evidence submitted by the Chartered Institute of Housing (CIH)

The Chartered Institute of Housing (CIH) is the professional body for people involved in housing and communities. We are a registered charity and not-for-profit organisation. We have a diverse and growing membership of over 23,000 people, both in the public and private sectors, living and working in over 20 countries on five continents across the world. We exist to maximise the contribution that housing professionals make to the wellbeing of communities. Our vision is to be the first point of contact for, and the credible voice of, anyone involved or interested in housing.

Introduction

CIH has long called for reform of the welfare system and has supported the principal of a universal credit to simplify benefits. However, we continue to have concerns about the implementation of Universal Credit as the welfare reform programme progresses.

This response draws on the experience and expertise of members and officers across CIH, including Scotland, Wales and Northern Ireland. CIH delivers a range of services and tools to help landlords and tenants prepare for changes to welfare benefits, and a great deal of our knowledge and understanding of impact and implementation comes from this work.

Some of our concerns about the administration of Universal Credit have already been raised in our written evidence to the Communities and Local Government Select Committee (Ev w58) and the Social Security Advisory Committee inquiry, and during the passage of the Welfare Reform Act.

We note the Select Committee's interest in receiving evidence on specific aspects of progress towards implementation of Universal Credit. Our response focuses on those areas that are relevant to our members and where we have particular knowledge and expertise:

— Proposed arrangements for claims and advice.
— Impact of changes on local authorities.
— Impact monitoring.

Summary of Key Points

One of CIH's priorities for the welfare system is that it provides an effective system of help with housing costs. Central to an effective system are:

— Provision of sufficient funds for the claimant to secure suitable accommodation (size, quality, location).
— Certainty for claimant and landlord.
— Transparency.
— Speed.
— Accuracy.

As Universal Credit implementation progresses, we continue to assess whether the housing aspects of the system will create an effective system of help with housing costs.

The process of designing and implementing Universal Credit poses a number of strategic and operational risks to provision of an effective system. At this stage we are still looking for assurance that these risks will not occur, because of their potential impact on both the ability of lower income households to secure appropriate housing and on the ability of landlords to provide it.

Our current concerns are that:

(1) People and businesses that will be affected by the introduction of Universal Credit do not have enough information about its detail and operation, or about when this information will become available. This means that concerns about risks and design cannot be allayed, and that those

affected find it difficult to schedule and deliver preparations for the impending changes. Perceived risks worthy of particular mention are that:

— The IT system will not be reliable and simple to use, or there will be insufficient capacity in the system, which in turn will affect speed of claim administration, liaison with claimants, accuracy of decisions, and fraud

— The intention to reform multiple aspects of the welfare system and simultaneously cut expenditure will lead to the benefit available not covering tenants living costs, pushing people into hardship and potentially affecting their lives quickly and severely and also potentially requiring further public/third sector expenditure

— The scale of change, and the reduced likelihood that there will be a period of "steady state" benefit operation, will make impact assessment complex and possibly lack value.

(2) There are significant implementation costs outside of the DWP budget ie the time and financial cost of activities which landlords, tenants, and advice services have to undertake to prepare for and deal with the changes. The costs of transition borne by third parties are likely to be high and are unlikely to be rewarded with an equal return to them once steady state operation of Universal Credit is reached.

(3) It is very unlikely that the new benefits system will be and stay simple. The continuing focus on further reforms and cuts (eg proposed £10 billion further reductions, changes in eligibility for under 25s) creates a risk that the objective of creating and running a simplified system could very quickly be undermined. There are no safeguards in the Universal Credit system to prevent the type of tweaks and additions which have caused the current system to become so complex and unwieldy.

(4) The links between different parts of the implementation programme (eg the Universal Credit pathfinders and the direct payment demonstration projects) appear to be weak. This increases the risk that the final system will not work smoothly, and it gives rise to many questions and concerns which hinder preparations for implementation by third parties.

The evidence presented below highlights some priority points which we believe should be addressed as implementation progresses. When taken together, these detailed points have led us to identify the four overarching concerns set out above.

Specific Comments

(1) *Proposed arrangements for payment and claims*

Total amount payable

We are still looking for clarification that households receiving benefits to top up income from paid work will be no worse off under Universal Credit. We have heard the message that people will be better off in work than on benefits, but would like to see a comparison of household income in the 2010 steady state system and the post- implementation system to show that people on low incomes who are already working and claiming will not be worse off.

Work incentives

We are disappointed that there is no provision in the Universal Credit regulations for extended payments (currently available under housing benefit) when long-term unemployed claimants move into work—the most effective work incentive in the current system. The abolition contradicts the objective to improve incentives for the long-term unemployed to take up work. We are aware that the Government believes that they are not needed in the Universal Credit regime because the system will be much more responsive. Nevertheless, claimants value this incentive because it is easy to understand (if the full rent is currently being paid it will continue for a further month) and it helps alleviate some of the anxiety about budgeting—not least because there are often return to work costs for people who have been out of the labour market for some time.

The decision to operate council tax benefit separately from Universal Credit, and the variability of future benefit under localised systems, will have a negative impact on work incentives. Keeping separate benefits retains the current problem of punitive withdrawal rates as earned income increases, which runs counter to the work-focused objectives of smoothing out withdrawal rates by bringing benefits together. As councils cut council tax benefit expenditure additional burdens falling on the low-income employed will again undermine the work-focused objectives behind wider benefit reforms.

Payments

Access to bank accounts to receive Universal Credit by BACS is a key issue, and we are aware that DWP is working to find solutions for people without a transactional bank account.[19] Awareness of the change to benefits is growing, and claimants need further clarity and information on how these alternative systems work.

[19] www.24dash.com (5 July 2012)

Effective and timely payment to claimants is as important as having the ability to make payments, and this needs to be recognised during development of a workable payment system.

It is essential that dialogue between the Universal Credit Pathfinders and the direct payment demonstration projects is established and that information on learning and activity becomes much more freely available so that the lessons can be acted upon in advance of implementation.

Uncertainty for some providers and claimants

Hostels

We are particularly concerned about the position of hostels[20] under the proposed rules which threaten the viability of small voluntary sector projects. The draft regulations do not contain any provision for direct payments of ineligible hostel charges[21] (eg to cover water and electricity for common areas) to the landlord. This means that the landlord would have to collect the ineligible charges from the claimant. For small landlords these charges—though often small at around £8–10 per week—can come to significant amounts. Without a mandatory direct payment of the housing element, it would be difficult to obtain those costs from the hostel residents. Many hostels currently rely on these rules to ensure their financial viability and some do not have the option to cross subsidise any loss from other housing stock.

Under the proposed UC regulations, landlords would need to provide evidence of vulnerability to secure direct payment. This is particularly problematic when dealing with residents who, by definition, have a chaotic lifestyle. Verification of vulnerability would be practically impossible to provide if the resident leaves after only a few days. Government has said it intends to apply verification on a risk basis, and we would welcome clarification of the intended approach.

Change of circumstances

There is concern regarding the date from which an award of benefit is adjusted because of a change of circumstances. The main UC regulations and claims and payment regulations appear to say that if a change of circumstance occurs part way through an assessment period then the award of UC is adjusted from the date the next new assessment period starts (which is consistent with the principle that UC is a "surrogate wage"). If the claimant has a change of circumstances resulting in an increased award they lose out and have to address the shortfall themselves. Nearly all tenants experience an annual rent increase (often from 1 April or the first Monday in April), which would mean that unless their rent increase occurred on the same day as the start of their assessment period they would not receive sufficient benefits to cover their changed housing costs. Each year there would be shortfall between the UC award and the rent payable: this is an issue where aiming for the principle of administrative simplicity undermines the effectiveness of the system.

Claims

CIH does support the broad aim that the claims process should be digital by default, not least because in a highly centralised system this appears to be the only way the required rate of decision making can be achieved without a backlog developing.

A move to online claims will be a big change for a lot of tenants, many of whom do not have internet access. Moving people rapidly towards greater digital inclusion is beneficial for their social and economic opportunities, but we are concerned that the big bang shift to online claiming could cause exclusion rather than inclusion.

A number of problems may arise from online claims:

- Benefits claims and advice are aided through personal support in completing documentation, eg face to face or telephone contact. A shift to online claiming would remove those support features.
- Vulnerable people may be put off completing an online claim form.
- Poor broadband coverage in rural areas, lack of access to libraries and a feeling of insecurity or lack of knowledge about open access on non-secure public machines could limit people's ability to claim and manage claims in a timely manner.

The potential benefits of claiming online will not simply emerge, even with the increased government investment in internet provision and the promise of some high-street support for the new benefit system. Clarity on the resources that government will provide to the most excluded would be welcome—a good solution will help build capacity for local authorities, housing providers and claimants around provision of advice, support, and skills building.

[20] Hostel has a specific definition in the current HB and IS regulations. Broadly it only applies to the not-for-profit sector with non self contained premises provided with meals or shared facilities for preparing food. See HB regulations regulation 2(1)

[21] For the current rules the Social Security (Claims and Payments) Regulations 1987, schedule 9 paragraph 4A. Equivalent provision, if being made would appear in schedule 5 of the claims and payments regulations.

(2) *Impact of changes on local authorities*

Our comments here focus on the indirect impacts on local authorities: homelessness duties and discretionary payments. We are concerned about the challenges of running a dual system as Housing Benefit (HB) is phased out and Universal Credit phased in, and about the localisation of council tax, but we have not focused on these here.

We expect that the housing minister will soon introduce the ability for local authorities in England to discharge their homelessness duty in the private rented sector. Private landlords' confidence in the operation of the Universal Credit will be central to councils' ability to use this new power.

The Universal Credit embeds many of the recent cuts to Housing Benefit, along with the risk that households will face financial difficulties meeting housing costs under the new system. In England, Wales and Northern Ireland we anticipate that there may be an increase in the number of private and social tenants seeking financial advice or homelessness services from local authorities. In Scotland, where homelessness duties require assistance to be provided in a wider range of circumstances, there is an expectation that both private and social tenants will be affected, but there is pressure on social landlords not to evict tenants who run up arrears. We are concerned that social landlords in Scotland will have to carry more of the negative financial impact than elsewhere in the UK.

In Northern Ireland, administrative and legislative arrangements for benefits are significantly different from in Great Britain. We are concerned that there are distinct and significant issues around implementation and impact of welfare reform in Northern Ireland that are not reflected in the process, and that the process will not allow sufficient flexibility for Northern Ireland variations. We would like to explore this issue in more depth with the Committee.

Under the Universal Credit regulations, once the cap is in place any money over and above the cap will be reduced from the housing costs element—some households could in theory find their entire housing award reduced to zero. Although the discretionary payments system can be used to help households adversely affected by the reforms, we expect that because of the very high shortfall that will apply to people affected by the cap most authorities will be reluctant to award a DHP because of the very high attrition rate it will place on the DHP budget. This will initially present problems around rent arrears, and then potentially around homelessness as households are unable to fund any accommodation—problems which local authorities are likely to have to pick up.

We believe that the cap will undermine arrangements Local Authorities have made to secure temporary accommodation for homeless households (over 70% of which are families with children[22]) in and around London—because the leases are at a higher price than mainstream rents and so much more likely to be affected by the cap. We are also dismayed that the benefit cap regulations have been published before the review of the Housing Benefit subsidy rules for temporary accommodation has been completed.

(3) *Impact monitoring*

We are keen to see thorough impact monitoring of Universal Credit introduction for two reasons. Firstly, we support many of the aims for the reforms, and we want to see that positive social impact has been delivered by the widespread changes. Ongoing impact monitoring should show progress towards these aims, and enable changes to be made if it their achievement is not on course. Secondly, we are concerned that some of the risks identified above will transpire—these are serious risks to households and businesses, and it is important to identify and respond to any serious problems emerging.

We would want to see a mix of quantitative (from administrative data) and qualitative monitoring to give a rich picture, and would be particularly interested to see:

- Impact on household income and ability to maintain a settled lifestyle.
- Impact on landlord cashflow, and on investor confidence in the sector.
- Perspectives of claimants, landlords, and relevant agencies.
- Impact of Universal Credit on different groups of people, especially single parents, BME and disabled households.
- Analysis by region, household size and type.
- User journey for claims.
- Changes in attitudes about employment.
- How many online claims are made, and where from (public computer, advice agency premises, home etc).

Whilst this might require a high level of time in terms of data preparation, cleansing and analysis, we would estimate the resources already available within existing government departments. One of the advantages of Housing Benefit is that it provides a data rich source of information so enabling effective long-term monitoring and analysis. Universal Credit is unlikely to be any different.

[22] DCLG (2012) Table 780. First quarter 2012 out of 13,130 applications where a duty was accepted 9,410 had dependent children—although there is no further breakdown by family size.

Government already runs a number of surveys (eg the Family Resources Survey, English Housing Survey, and Labour Force Survey). These long running surveys are could be used to aid monitoring of the impact of Universal Credit, due primarily to their wide sampling base which is likely to include the types of households affected. These surveys also enable the insertion of new questions, which could specifically focus on Universal Credit.

It is puzzling to see sporadic amendments to data collection whilst the Universal Credit system is still in development. These make it hard to understand what will be collected overall, which in turn make it difficult to see whether impact assessment will be possible and meaningful. A particular concern is the current DWP proposal to cease collecting data on benefit take-up which, without an outline of overall Universal Credit monitoring plans, seems to undermine ability to track the impact of the council tax benefit reforms.

Finally, Government has recently shown itself unwilling to consider or fully present independent analysis of the likely impact of Universal Credit and welfare reform. This is unfortunate and does not create the impression that Government wishes to properly monitor the impact of policy change. We hope to see a change of approach to impact monitoring in the near future, building confidence in the accuracy and transparency of reporting as policy implementation moves forward.

22 August 2012

Written evidence submitted by the Child Poverty Action Group

Introduction

1. Child Poverty Action Group (CPAG) works to prevent and relieve poverty among children and families with children. We have particular expertise of the functioning of the social security system through our welfare rights, training and policy work: in April 2012, for example, we published the handbook *Universal Credit: What You Need To Know*, an authoritative guide to the new benefit. Consequently, we welcome the opportunity to submit evidence to the Committee on progress being made with respect to the implementation of Universal Credit (UC).

2. In this submission we organise our concerns around the three objectives that the government has set for UC, namely (i) the simplification of the benefits system (ii) making work pay and (iii) protecting the most vulnerable in our society.[23]

Simplification of the Benefits System

3. Simplification is a worthy goal but it is very difficult to achieve in a heavily means-tested and conditionality-based system such as UC. Despite streamlining six benefits into one, the use of “real-time” information, and the payment of the benefit by a single agency to those in- and out-of-work, many complexities will remain, and new complications will be introduced with the advent of UC.

4. Recently published regulations reveal that many of the current rules which govern entitlement to means-tested benefits and which currently cause great confusion will simply be imported into UC. These include the rules relating to residence and immigration, couples, students, limited capability for work, housing costs and the treatment of income and capital.[24]

5. However, in addition to existing problems, UC will also create several new areas of complexity including:

- *The introduction of in-work conditionality.* DWP’s own research shows that in-work claimants are both confused and dismayed at the prospect of being subject to a range of requirements until they reach a certain income point.[25]
- *Joint payments*. The single household payment raises many problems not least the question of how a couple with one partner who does not accept the claimant commitment will be treated. The regulations provide no guidance on this issue.
- *Default online processes*. As well as the obvious problem this presents for the digitally excluded, UC’s online interface is likely to pose challenges even for computer literate claimants.
- *Monthly payments*. While the Government’s rationale for monthly payments—that they mimic the usual wage pattern—sounds reasonable, evidence shows that for many low wage jobs monthly payments are the exception rather than the norm.[26] Moreover, studies show that claimants are concerned that the move to monthly payments will hinder rather than help them to budget effectively.[27]

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[23] DWP, *Universal credit: welfare that works*, CM7957, November 2010

[24] See CPAG, *Universal Credit and related Regulations: response to the SSAC’s call for evidence*, July 2012 for further information

[25] M Rotik and L Perry, *Insight to support Universal Credit user-centred design*, DWP Research Report, July 2012

[26] See for example work by the Women’s Budget Group available at http://wbg.org.uk/pdfs/0-Universal-credit-frequency-of-payment-Sept-2011-revised.pdf

[27] M Rotik and L Perry, *Insight to support Universal Credit user-centred design*, DWP Research Report, July 2012

— *Minimum and maximum earnings disregards*. The introduction of different disregards for various family compositions and at different levels depending on the extent of housing support provided as part of UC is an area of especial complexity. While different disregards ensure a degree of fairness, for example, between families of different sizes, or between home owners and those who receive support with their rent, recent simplifications will result in some groups losing out and look set to cause much confusion.

This is particularly the case for those who have low housing costs. Under current proposals, those with housing costs covered in their UC award will simply get a lower disregard than those with no housing costs element. This provision differs from that originally proposed which scaled the disregard according to the amount of the housing costs received. As a result, those in work receiving help with housing costs may receive a lower Universal Credit award than claimants in similar circumstances with no housing costs.

We believe that if the Government wishes to retain the simplified structure, a way forward is to set both earnings disregards, and in particular the lower earnings disregard, at a high enough level so that the system is fair and so that work incentives are maximised for everyone. If not, then it would be far better to go back to the original provision of tapering the earnings disregards to reflect the amount of housing costs paid. The loss of simplification could be eased merely by stating in award notices what the household's earnings disregard is in their current circumstances.

6. Both the enduring and the new complexities that will be embedded in UC will present claimants with a whole host of challenges. Without good advice, many claimants will struggle to comprehend either their entitlements or the new obligations that UC places on them. As a result, the Government's expectation that UC will be taken up more widely than many existing benefits could be misplaced. Likewise, the objective of increasing claimants' adherence to work could be undermined if conditionalities are not fully understood.

7. In our view, it is therefore essential that the Government provides support for the advice sector as an integral part of the design, piloting and roll-out of UC. For example, the Government could usefully audit existing advice provision, dedicate a percentage of its implementation budget to training and supporting advice providers, and provide funds for recruiting additional advisers as required.

Making Work Pay

8. Improving work incentives is an equally laudable objective and we welcome a system that allows claimants to take on work without the current levels of disruption to their benefits. However, we are concerned that many aspects of the UC scheme do not sufficiently take into account the real reasons that many claimants do not access work, or work only for only limited amounts of time.

9. The unified 65% taper rate represents little change to work incentives for many existing claimants, and there is no evidence that it will significantly influence the behaviour of claimants compared with labour market factors such as the local availability of jobs, rates of pay, and other conditions of employment. The recent changes to Working Tax Credit (WTC) illustrate this point well. From April 2012 couples have been required to increase their working hours from 16 to 24 a week in order to access WTC. Despite the considerable financial advantage they receive if they do so, and the large losses incurred if they do not, many couples have simply been unable to find the extra hours in the prevailing economic conditions.[28]

10. The availability and cost of childcare also acts as a brake on families' ability to take up work. In this respect, the cut in maximum childcare support from 80% to 70% which is carried forward in the UC regulations is particularly detrimental to work incentives. This loss is compounded by the fact that childcare costs must be reported on a monthly basis under UC. This requirement is burdensome on parents, and fails to take into account that many do not pay childcare costs according to a regular monthly schedule, but instead on a termly or more sporadic basis. As they will be constrained by monthly thresholds, many parents will be unable to claim back their full entitlement.

11. The more generous earnings disregards are welcomed but the absence of a second earner disregard undermines the work incentives for non-working partners. This is particularly important in the context of reducing child poverty given that couple families where both partners work have a significantly reduced risk of living in poverty compared with those with only one earner.[29]

12. The new conditionality regime will be more stringent but we are not convinced that it will be more effective in encouraging claimants to move into work. Much will depend instead on the quality of support provided through the Work Programme. As a result, we believe investment should be directed at staff training, and at providing sufficient time and resources for advisors to form trustful relationships and to develop appropriate and tailored support for claimants with genuine opportunities for self-direction. As recent events

[28] USDAW, *Two thirds of families about to lose tax credits are already living in poverty*, March 2012, available at http://www.usdaw.org.uk/newsevents/news/2012/mar/twothirdsoffamiliesabout.aspx

[29] DWP, *Households Below Average Income 2010/11*, June 2012, table 4.5db

have shown, however, some providers are struggling to deliver such a service within the current business model.[30]

13. Work incentives will be further undermined if the withdrawal of passported benefits introduces new cliff edges into UC. To take the most often cited example, withdrawing free school meals from families when they reach a certain income threshold will create a significant work disincentive: a family with three children, for example, would need to earn more than £3,000 more a year to offset this loss of support.[31] While some have suggested tapering passported benefits through various means, experts generally regard this as impracticable.[32] As a result, CPAG and others are calling for free school meals to be extended to all in receipt of UC.

Protecting the Most Vulnerable

14. The Government's own analysis shows that there will be winners and losers from UC but it has also made it clear that it intends to protect vulnerable claimants.[33]

15. Almost all of those who are eligible for UC must be considered as vulnerable but clearly, within this large cohort there are some groups who demand our especial consideration. At CPAG we are particularly concerned about:

— *Claimants with disabilities*. Disability premiums have always been a feature of means-tested support in recognition of the extra costs associated with disability such as aids and adaptations, extra heating, transport, special clothing and diets. The severe disability premium is currently worth more than £58 per week, while the disability element of Working Tax Credit is worth around £54 per week. Both these elements will be removed under UC. The replacement of disability living allowance by the Personal Independence Payment (PIP) is insufficient given that we know 500,000 less people will qualify for this support.

— *Claimants with children with disabilities*. The proposed lower rate to be paid to families with disabled children is significantly less than the current disabled child element contained within Child Tax Credit. This will adversely impact vulnerable families with a disabled child, with many families being worse off by up to £30 per week.

— *Carers*. UC will not allow an award of carer's allowance if the claimant is deemed to have limited capability to work or get ready for work. This is, in our view, an unnecessary and illogical restriction which will adversely affect some of the most vulnerable claimants. The fact that a claimant has limited capability to work does not preclude regular and substantial caring responsibilities.

— *Joint claimants with limited capabilities*. Under UC couples who both have limited capability to work or get ready for work will only receive one element which recognises their restricted functions. Again, this does not reflect the reality that disability-related expenditure for two people is higher than for one.

— *Claimants in sheltered or institutional types of accommodation*. Under UC some service charges which are currently covered such as the provision of adequate accommodation for warden and caretaking services will no longer qualify for payment. In particular, this will affect those in sheltered or institutional types of accommodation who will have to fund these services from their subsistence benefits. This is a cutback which requires an explanation.

— *Claimants in temporary accommodation*. Local Authorities have expressed concern that temporary accommodation will be included within the benefit cap. In effect, this serves to penalise those placed in expensive temporary housing through no fault of their own. Claimants in temporary accommodation whose benefits have been capped will need to have their rent shortfall met by the Local Authority. Many Authorities are expressing considerable concerns about whether this will be affordable or possible. The alternative is to ask claimants to make up the shortfall from their own pockets; yet those whose entitlements have already been cut by the benefit cap to below the amount the state suggests it is necessary for them to live on are unlikely to be able to meet these costs.

— *Young lone parents*. The regulations indicate that lone parents under the age of 25 will receive the same standard allowance as a single claimant without children. Currently lone parents aged 18 or over receive the same personal allowance as single claimants without children aged 25 or over. This constitutes a significant cut for young lone parents and their children.

[30] See, for example, I Mulheirn, *Work programme design is flawed*, July 2012 available at http://www.guardian.co.uk/commentisfree/2012/jul/02/a4e-job-agencies-payment-performanceSource?

[31] Free school meals are worth £386.10 per year per child, or £1,158.30 for three children. With a Universal Credit taper rate of 65%, to increase their take home income to cover the £1,158.30 lost in free school meal support, a family would need to earn at least £3,309 (excluding the added burden of tax).

[32] *DWP, Universal Credit: the impact on passported benefits, Report by the Social Security Advisory Committee and response by the Secretary of State for Work and Pensions*, CM 8332, March 2012

[33] DWP, *Universal credit: impact assessment*, October 2011

— *Large families*. We object to the overall benefit cap on the grounds that for the first time in a generation, the level of state support will be delinked from assessed need. As the Government's own impact assessment shows, it will disproportionately affect children in larger families who are at a particularly high risk of poverty.[34]

16. Beyond specific groups who look set to lose support with the introduction of UC, we have a broader set of concerns with respect to certain design elements of the new benefit. Specifically, we draw attention to:

— *Monthly assessments*. Such assessments will generate considerable lags in awards being made under some conditions. The regulations have also made clear that changes of circumstance will normally be treated as occurring on the first day of the assessment period. As a result, if entitlement ends during an assessment period, because a claimant starts full-time education on the last day of her assessment period, for example, UC will be lost for the whole month. This, in our view, is arbitrary and will cause hardship.

— *Monthly payments*. Evidence suggests that many claimants may have difficulty budgeting on a monthly basis.[35] Moreover, payment to the household will disempower many women and remove safeguards that ensure payments for children and housing costs are used for these purposes where one partner in a couple acts irresponsibly. We would like to see more detailed provision in the regulations for variance from default monthly payments to the household, rather than reliance on the discretion of decision-makers.

— *Reliance on complex IT systems*. UC will depend on a sophisticated IT platform but given the mixed record of past large-scale government IT projects, we are all naturally cautious about the ability of the system to function effectively. There is no provision in the regulations for situations where the system breaks down, nor as far as we are aware, any broader contingency plans being made for such an eventuality. Given the amalgamation of payments for adults, children and housing costs, claimants risk destitution if there is a problem with their award.

17. The Government has made various provisions designed to ameliorate hardship in certain circumstances but we are sceptical about the effectiveness of these arrangements as follows:

— *Transitional protection*. We understand that the Government is intending to restrict transitional protection to existing claimants who are "migrated" onto UC through the DWP's managed programme. In contrast, those transferring onto UC due to a change of circumstances will not get any transitional support. This arbitrary approach is unjust and undermines the Government's repeated assurance that nobody will lose out at the point of change. Given that 12 million existing claimants will be transferring onto UC by the end of 2017, this could adversely affect many who move onto UC because, for example, they have a child, a child leaves home, or when they enter or leave employment.

— *Hardship payments*. These payments will be available to some who lose support because of a sanction. However, such payments will be both more restricted and recoverable under UC. Reclaiming hardship payments will mean that sanctioned claimants will continue to receive a reduced rate of UC for significant periods after the sanction expires.

— *The localisation of elements of the social fund*. Responsibility for crisis loans and community care grants, both of which provide vital support to low-income families in extreme situations, will be delegated to local authorities from April 2013. However, as settlement letters sent out in August 2012 show, the localisation of these elements occurs in the context of significant cuts to the available budget which will highly constrain the level of support that can be provided. As one Local Authority officer recently said to us, "The social fund is not being localised, the social fund is dead".

Conclusions

18. Universal Credit has three laudable objectives but as our submission shows, there are multiple aspects of the model which undermine the achievement of these goals. Moreover, it is important to acknowledge the overall context within which UC is being designed, and to recognise that the benefit is very much a function of its broader environment.

19. Most obviously, UC is being developed in a time of acute fiscal austerity: £18 billion of cuts are being made to the social security budget over the spending review period, and an additional £10 billion have been mooted for the period 2015–16. The benefit will suffer because of this—most obviously, the taper rate has been increased to 65% from the original 55% advocated in the earliest design stages. However, as our analysis above shows, impoverishment is also embedded in UC and in our view is being used to incentivise claimants to work. Both the effectiveness and the morality of such a strategy must be questioned.

20. UC is also being introduced at a time when a more subtle assault is being made on those on low incomes. Claimants are routinely depicted as negligent, fraudulent and personally at fault for their plight despite the fact that the evidence overwhelmingly suggests otherwise. These misrepresentations have a deep and pervasive

[34] DWP, *Households Below Average Income 2010–11*, June 2012, table 4.5db

[35] M Rotik and L Perry, *Insight to support Universal Credit user-centred design*, DWP Research Report, July 2012

impact on policy design, public opinion and indeed on claimants themselves, many of whom experience a sense of shame when seeking state support.[36] Aspects of UC, in particular tighter conditionality and sanctions, reflect and reinforce this inaccurate view of claimants. Again, we question the correctness of such an approach.

21. To conclude, UC represents a chance to construct a system that supports and assists those on low incomes better than previous schemes. We hope that the Committee will agree with, and advance our analysis throughout the design and implementation of the new benefit.

17 August 2012

Supplementary written evidence submitted by the Child Poverty Action Group

1. Child Poverty Action Group (CPAG) was grateful for the chance to give evidence at the Work and Pensions Select Committee on 10 September 2012 on the design and implementation of Universal Credit (UC). We submit this note to provide some brief additional information to the Committee about specific concerns that were covered only partially in the session.

2. The Government has justified the removal of the *severe disability premium* payment on the basis of simplification. We challenge this assertion: under the current system, it is indeed difficult to assess eligibility as this requires information about the circumstances and benefit receipts of all those living within a household. Under an integrated system such as UC this problem will be solved.

3. In addition, the Government has suggested that it will instead direct assistance for vulnerable claimants with disabilities through the *limited capability for work-related activity element* of UC which it has intimated will be increased if possible in the future. As well as being less well targeted at those with the greatest needs, we question the fairness of taking a substantial amount of money away from highly vulnerable people and simply substituting this with a future promise.

4. Under the current system, both Tax Credits and Employment Support Allowance (ESA) can be automatically backdated for up to a month. However, under UC there will be no automatic *backdating.* Instead, this will be available only in a much more restricted and prescribed set of circumstances than currently applies. This change will, in our view, result in hardship.

5. The promise has been made that no-one will be worse off at the point of introduction of UC, but this ignores the fact that benefits will have already been subject to extensive cuts. In addition, *transitional protection* will not be provided to those who move from other benefits to UC because of a change in circumstances such as the birth of a child or a new partner. This will leave a substantial number of people worse off under UC than originally envisaged.

6. The Government has stated that *payments on account* will be available for those who experience delays with their UC award. However, it is not clear that these will be available to those who experience a delay because of problems with assessment, rather than simply for those who experience problems with the actual payment of the award.

7. Finally, we would like to take this opportunity to clarify one part of our evidence. The 1.4 million households who will be detrimentally affected by UC are in the bottom two income quintiles, not deciles.

13 September 2012

Written evidence submitted The Children's Society

INTRODUCTION

The Children's Society supports over 48,000 children and young people every year through our children's centres and specialist services, the majority of whom are likely to be in families in receipt of Universal Credit. We believe in achieving a better childhood for every child but have a particular focus on disadvantaged children.

Whilst we welcome the introduction of the Universal Credit (UC) to simplify the benefit system and improve work incentives, it will also have profound implications for the lives of millions of children and families across the UK. Many of those affected will be amongst the most disadvantaged and it is crucial that the right decisions are made now, to ensure that the transition onto the new system is as smooth as possible for those affected.

SUMMARY

This briefing addresses a wide range of issues relating to the introduction of UC, and makes a number of recommendations. However, we would particularly like to draw the attention of the committee to the following:

— The lack of automatic backdating, and in particular, the consequences for families becoming entitled to UC at the point of having a child.

[36] R Walker & E Chaise 2013 *Poverty and shame* Presentation delivered at Oxford University, 16 March 2013

- — Changes to the structure of support for people with disabilities, and in particular, the impact of the loss of the Severe Disability Premium (SDP) on families with young carers.
- — Earnings disregards in UC, including the removal of per-child disregards originally proposed.
- — The future of Free School Meals (FSM) under UC.
- — The operation of the in-work exemption from the benefit cap under UC and the potential impact on working parents on sick leave or maternity leave.

1. Claims and Payments

(i) *Online claims*

Many of the families with whom The Children's Society works lack either the means or the skills to use the internet. We are concerned that the implications of a shift to online claiming has not been sufficiently addressed. The quality and accessibility of telephone and face-to-face advice on establishing and maintaining a benefit claim must not be undermined by an "online first" delivery mechanism.

We are also concerned about the interaction between an online first system, and having no automatic backdating of UC claims. Claimants who struggle to use the online system may need to seek alternative support in order to help them to establish and access their claim which is likely to delay their claim.

Recommendation 1: DWP should consider establishing a fund to support voluntary sector service providers to deliver additional support with making and maintaining online claims for UC. For example, since many claimants will be families with very young children, support with making and maintaining online claims could be delivered through children's centres. Support with computing facilities and staff time and training would be required to enable this.

Because childcare costs will require regular reporting, it is particularly important that support is given to digitally excluded families with children in childcare. It should be recognised that these are amongst the busiest families with least time to administer their claim.

Recommendation 2: The Government should consider how they can ensure that online facilities for managing UC claims are available through nurseries, in order to enable parents to administer their claim at the point of dropping off or collecting their children from childcare.

(ii) *Backdating*

We are concerned that the DWP have indicated that UC claims will not typically be able to be made in advance of the point of entitlement, and cannot be backdated as standard.

Claimants will only be able to get (up to one month) backdating if they face certain specific circumstances which make it difficult for them to make a claim on the date at which they become entitled. For example:

- — The claimant's health condition delays their claim.
- — Problems claiming online due to system failure or planned system maintenance.

We are concerned that:

1. It may be difficult to prove that a claim made online faced "system failure" whilst making the claim.

2. Many claimants may find they have to delay their UC claim in order to find support in using the online system. These claimants should not lose out as a result of this.

3. A very large proportion of claimants will become entitled to UC at the point at which they have a new child. It is very unlikely that parents will be able to make a UC claim on the day on which they have a new child. Expecting new parents to provide medical evidence that they were unable to make a claim on the day they were having a baby seems unnecessarily complicated.

Recommendation 3: Households should be entitled to at least one month, and ideally three month backdating. This should be automatic in order to reduce the complexity of the claims process for the claimant.

(iii) *Joint claims*

Except in exceptional circumstances UC payments for joint claimants would be paid in entirety into one bank account.

Long-term couples who already share their income and bills in full (eg through a joint bank account) will not need separate payments to each member of the couple. However, for some couples (particularly new couples), the situation is more complicated.

For example, suppose a lone parent (not responsible for housing costs) moves in with a partner who receives support towards their rent. UC entitlement can only be paid into one bank account, so either (1) the parent will have to relinquish control of the child related UC he/she receives, or (2) his/her partner relinquishes control of their housing support. Neither partner may be happy to give up control over the support that they receive. This could put partners off from moving in together and forming long-term relationships.

Moreover, the outcome of this situation could be that the UC paid for children in the household, is not paid to the main carer. There is evidence that the best way to ensure that money paid towards the needs of children is used for that purpose is to pay the money to the main carer.[37]

Recommendation 4: Where requested, UC payment should be split between joint claimants in such a way as to ensure that the payments made on account of children in the household are made to the main carer, and that payments made on account of housing costs are paid to the tenant responsible for paying the housing costs.

2. The "Claimant Commitment", Sanctions and Hardship Payments

We are concerned by the lack of detail around conditionality for working parents. Core conditionality requirements set out in regulations will apply to groups *"roughly equivalent to those subject to the current conditionality regime."* However, some level of conditionality will be introduced for those working up to their "conditionality threshold"—up to 35 hours per week. Conditionality for benefit claimants working 16 hours or more per week is a big change to the welfare system.

DWP briefing notes have recognised that *"the decision to move jobs involves consideration of more than simply the increased earnings that someone may accrue."* These other benefits of a job are particularly important for a parent, including flexible working, maternity leave rights and so forth.

Recommendation 5: There should be no conditionality requirements on parents working 16 or more hours per week.

The key principle behind UC is that work should always pay. Currently, in assessing whether a claimant has good cause for failing to apply or accept a job, decision makers must consider work related expenses incurred. The same commitment is needed for UC.

Recommendation 6: The Government should be clear about the level of gains that claimants can reasonably expect on moving into work under UC (after accounting for work related expenses). In addition, it should be explicitly established that under UC a claimant would not be expected to avail themselves of a job where expenses incurred would amount to an unreasonably high proportion of the income the claimant would have received.

The DWP have suggested that the sanction amount for UC would be equivalent to the standard allowance. This disproportionately penalises couples whose standard allowance is significantly higher than that for single claimants. Additionally this means that conditionality cannot be effectively applied to each partner independently.

Recommendation 7: In the case of joint claims, sanctions should be equivalent to half of the standard allowance for the claimant household where one partner has been sanctioned. The sanction amount should only equal the full standard allowance for the couple where both partners in the couple have been sanctioned.

3. Disabled People and UC

(i) *Disabled children*

The DWP has previously announced that the amount of support for some disabled children[38] will be substantially reduced as a result of the introduction of UC.[39] Many families with disabled children which The Children's Society work with are deeply concerned about this cut.

Case study A

The Children's Society works with David, a single dad with three children, two of whom have disabilities. Andrew aged five has Down's Syndrome, while his one year old sister Amy, has cerebral palsy.

David is already relying on family and friends to help out with caring from time to time, and his budget is tight. He could stand to lose £27 per week in support for Andrew under the Universal Credit. He is currently applying for disability benefits for Amy, and depending on the level of support she is awarded, could lose a further £27 per week from this support. He noted that:

"Any cut to what we survive on now would have a real impact on our living. So many of the things we need every day, like milk for my youngest and nappies. Are already more expensive… We just about manage."

Recommendation 8: The Government should reconsider cuts to support for disabled children, and provide a disabled child element within UC which is equivalent to that currently provided by the disability element of Child Tax Credit.

37 See for example: Jackie Goode, Claire Callander and Ruth Lister (1998) "Distribution of income within families receiving benefits" Policy Studies Institute

38 Other than those on the high rate care component of DLA, or those who are severely visually impaired

39 Further details of this change are set out in the attached briefing note *"Cuts to financial support for 100,000 disabled children under UC"*.

The overall amount of support a family receives is clearly the most important consideration and for some, additional support received through improved work incentives within UC may offset the cut. However, as shown in *Disability and Universal Credit*[40] lone parents with disabled children will struggle where they face childcare costs on moving into work. An enhanced childcare component should be provided for families with disabled children, to recognise the typically higher costs for this group.

Recommendation 9: UC should cover an additional 10% of childcare costs for families with disabled children compared to other families.

(ii) *Disabled lone parents*

We are very concerned that there is no replication of the Severe Disability Premium (SDP) within the UC. SDP currently gives additional support to disabled adults with no one to care for them (or a young carer) helping to cover the additional costs of living with a disability but no carer. This will cost families up to £55.30 per week.[41] This cut could be equivalent to 20% of household income after housing costs.

Case study B

The Children's Society has been working with Kelly whose mum Jenny became ill about ten years ago when Kelly was eight years old. An aggressive illness hospitalised Jenny, and has since entirely paralysed her down one side. After staying with relatives for several months whilst her mum was in hospital, Kelly was able to move back with her mum from the age of nine.

Since then she has cared for her mum non-stop. She makes meals, she does washing and cleaning, She said early on she could only make simple dinners—scrambled eggs on toast, but she has learnt quickly. She does not do it alone, Jenny has a rota of professional carers who come to help out day to day, but they cannot do everything, and they do not stay overnight. About three years ago, the year before Kelly was due to sit her GCSEs, Jenny became extremely ill for a while. Kelly had to get up around four times a night to help her out. Naturally she was exhausted, dragging herself to bed as soon as she got in from school. Families like theirs could be left £55 a week worse off under UC.

The DWP reports that 25,000 lone parents are currently in receipt of SDP, this means around 42,000 children are likely to be affected. We are concerned the cut in support will place substantial pressure on these children to take on additional care responsibilities as parents will face difficulties in paying for the additional costs of care.

In total we estimate that around £50 million per year is being taken from support for young carers caring for a disabled parent as a result of this change. No additional support is being provided to Local Authorities as a result.[42]

Recommendation 10: UC should provide a self care element that provides additional support to disabled adults with no other adult to look after them.

4. Local Authorities

(i) *Localisation of Council Tax Benefit (CTB)*

The Government has announced that CTB will not be integrated into UC. Instead each local authority will be asked to establish a scheme of assistance. The Government will then be delivering a 10% reduction in expenditure on CTB,[43] excluding low income pensioners.

Recommendation 11: We do not believe that the full burden of this cut should be placed on working age households which will mean that many of those most affected will be families with children. The cost should be distributed across all households.

The Government's impact assessment of the localisation of CTB notes that the Local Authorities could make savings from CTB expenditure by changing the personal allowances or the taper rates for CTB.

Any option for providing support with council tax costs will have significant implications for the impact of UC. For example, Local Authorities may choose to keep the current system and cut expenditure by reducing maximum awards for working age claimants, meaning those on the lowest incomes would bear the highest proportion of the burden of the cuts. Another option would be to adjust the taper rate, so that CTB is withdrawn more rapidly as earnings increase—protecting the poorest families.

In both cases, failure to integrate CTB into UC risks creating a "double taper" for claimants with both entitlements tapered away in parallel. This recreates the current high levels of Marginal Deduction Rate and undermines the simplicity of UC. Ideally, CTB should be integrated into UC to avoid double tapers and ensure progressive work incentives. However, if Local Authorities are to be responsible for council tax then:

40 (attached) From The Children's Society, Citizen's Advice and Disability Rights UK.
41 £2,876 per year. This cut could be equivalent to 20% of household income after housing costs.
42 This issue is discussed further in the attached briefing note on "cuts to support for Young Carers under UC."
43 Saving £410 million.

Recommendation 12: Local Authorities should not make savings by cutting maximum award levels, since this would penalise the lowest income families the most. Instead, variations in personal allowances and taper rates should be used to withdraw earlier and at a higher rate.

Recommendation 13: If CTB is not to be integrated into UC, then the UC should try to ensure that the impact on work incentives under UC are minimised. This could be done by varying the level of earnings disregard provided within UC entitlement, to reflect the household's level of CTB entitlement. This would enable CTB to be withdrawn in full before UC begins to be withdrawn, ensuring that no household is affected by a double taper where the two are withdrawn at the same point.

(ii) *Social Fund localisation*

The Government has also announced its intention to restructure the Discretionary Social Fund, including localising key aspects. The new scheme under UC will have two components:

(1) *Payments on account*—which will replace Crisis Loan alignment payments, (paid in periods pending the payment of benefit) budgeting loans and interim benefit payments.

(2) *Locally based assistance*—which will replace crisis loans for emergency costs and community care grants. The financial provision to enable this will be made through non-ring fenced funding to Local Authorities.

Social Fund Payments provide a crucial bulwark of support for families in times of financial crisis helping people to find independence in their community and helping people to deal with emergencies.

Recommendation 14: It is crucial that Local Authorities use the funding allocated to them following the abolition of the discretionary Social Fund to establish appropriate schemes of assistance for vulnerable families. Money should be ring fenced to ensure that they do so.

Recommendation 15: Local Authorities should ensure that the schemes they establish reflect the current structure of the parts of the discretionary Social Fund which they are designed to replace—i.e. supporting people to live independently in the community/support families in times of stress, and to provide for short-term needs in times of crisis.

(iii) *Impact monitoring*

Assessing the impact of different localised schemes of assistance particularly of CTB and the discretionary Social Fund should be a key priority for impact monitoring. There needs to be evaluation of the range of schemes being put into operation and the amount of spending on these schemes.

Recommendation 16: Localised schemes of assistance put in place to replace Council Tax Benefit/ discretionary Social Fund assistance, should be monitored and evaluated. This should include:

- Level of take-up.
- An overview of the range of schemes in place.
- The impact on work incentives.
- Overall expenditure by Local Authority and nationally (including changes in expenditure).
- Claimants' views.
- The impact on children.

Department for Local Government (DCLG) should be responsible for monitoring and evaluating the localisation of CTB, and DWP for the localisation of the Social Fund.

5. The Level of the Earnings Disregards

(i) *Per child disregards*

Previous DWP briefing notes had emphasised that there would be a disregard paid per child in the household. These were to be £520 for the first child and £260 for the second and third children. For a working family with three children, this would be worth around £676 per year.

The draft regulations indicate there will just be a single (unspecified) level of disregard for families with children. The DWP has emphasised that this is a simplification measure, and that UC will account for household size through the child element.[44]

Recommendation 17: Per child disregards should be retained in UC entitlements in order to ensure that progress work incentives are maintained for larger families. This is particularly important in order to address

[44] "Changes to the structure of disregards for families with children have also been made to reduce complexity making the system simpler to understand and operate. The structure and levels of the disregards are being designed to ensure that households have strong work incentives. The effects of the change to the design of disregards will depend on the exact levels of disregards which will be finalised closer to implementation of UC. UC will account for different family sizes and circumstances through the different elements including the child element. The child element will comprise of two rates; one rate for the first/only child and then a reduced rate for second and subsequent children."(personal communication from DWP)

the impact of the loss of FSM, and potentially high childcare costs, faced by larger families on moving into work.

If the Government does decide to remove the per child disregards, it is crucial to ensure that the reduced level of support is replaced by equivalent additional support in the child element of UC so that families with children do not lose out as a result of this simplification. This would mean an addition of £338 pa for the first child and £169 pa for the second and third children to the child element of UC.

(ii) *Variations in disregards by levels of housing cost*

Previous UC briefing notes from the DWP have emphasised that there will be different levels of disregard for households with and without housing costs, with the level of "maximum" disregard[45] reduced by 1.5 times the level of housing costs claimed, until it reached a "minimum" level.

So, for example, the "maximum" disregard for a lone parent with two children would be £9,000 per year, and the minimum would be £3,040.[46]

UC regulations now suggest there will be only a maximum level of disregard (for households without housing costs), and a minimum level (for those with housing costs) in order to make the system simpler. We are concerned this measure actually makes the system considerably more complicated, since households with low levels of housing costs in receipt of UC would have to make a determination of whether they would be better off claiming for help with housing costs but receiving a reduced earnings disregard, or making no claim for help with housing costs. For example:

Case study C

A working lone parent with two children has eligible housing costs of £50 per week. Under the original proposals, their maximum level of disregard would be reduced by £75 per week (£3,900 pa) giving them an actual disregard of £5,100.

Under the new proposals, since they have claimed help with housing costs, the level of their disregard will be reduced down to the "minimum" level for their household (£3,040).

If they did not claim any help with housing costs, then they would receive their maximum disregard (£9,000). If the lone parent is earning £9,000 or more per year, then the difference between the minimum and the maximum disregard is worth £74.50 per week—substantially more than the value of the help with housing costs received.

There have been suggestions that the maximum and minimum income disregards should be replaced with a single income disregard applying whether or not the household has housing costs. This could leave many working people with no housing costs considerably worse off compared to under the current system. In particular, households with mortgage costs, who lose their support with mortgage interest on moving into work, would find it extremely difficult to ensure that work paid anything at all if they also lost their higher level of disregard.

Recommendation 18: We believe there should be a minimum and maximum level of disregard, with the maximum reduced by 1.5 times the rate of housing costs until they reach the minimum disregard.

6. Passported benefits

The Government has not yet made key decisions about how passported benefits[47] will operate under UC. The Children's Society is particularly concerned about entitlement to FSM.

Under the current system, the loss of FSM at 16 hours work per week is partially alleviated by gaining Working Tax Credit at the same threshold. This means that the family will normally still gain income overall at the point where they lose FSM entitlement.

Under UC, there is no single threshold at which the family gain a substantial increase in benefit income. This means that the loss of FSM is not covered by other benefits, creating a "cliff edge" where if a claimant exceeds this point, the costs exceed the benefits—they lose money by earning more or working longer.

The Government has indicated that they are considering how to replace the current entitlement criteria, possibly through an income threshold at which FSM entitlement is lost.[48]

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45 The level received for a household with no housing costs.

46 Proposed max and min levels as follows:
Minimum levels: for a single person without children £700; for a couple: £1920 plus £520 for the first child and £260 for the second and third children; for a lone parent: £2,260 plus £520 for the first child and £260 for the second and third children; and for single disabled people or a couple where at least one person is disabled: £2,080. Maximum levels: for a single person without children £700; couple: £3,000 plus £4,250 per household for a child (regardless of the number of children); lone parent: £9,000 (regardless of the number of children); and disabled people: £7,000 per household if a recipient or either partner in a couple is disabled.

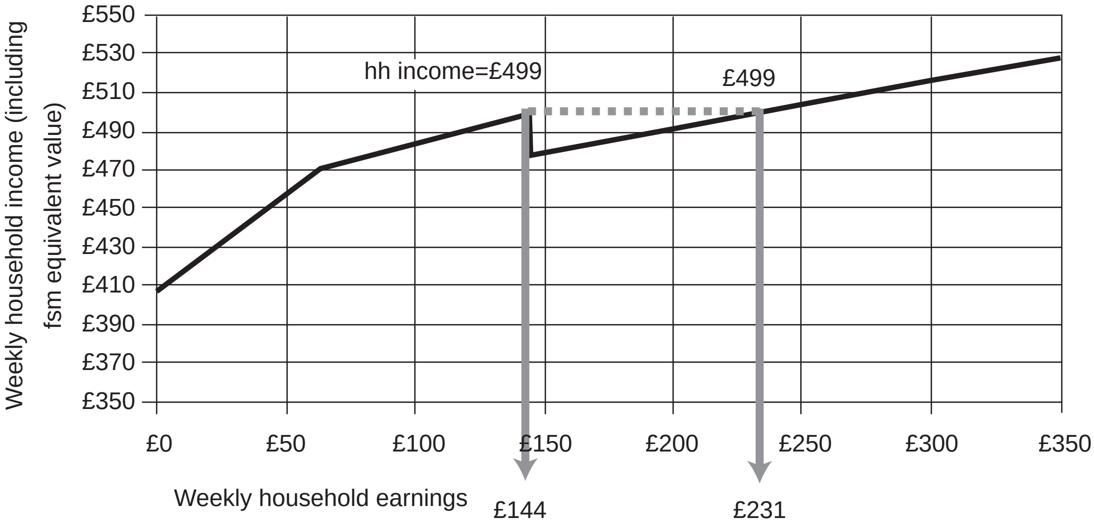
47 Such as Free School Meals and Free Prescriptions

48 DWP (2010) "*UC: Welfare that works*" London: DWP (p48)

Figure 6 below illustrates the potential impact on the income of a lone parent with three school aged children with an earnings limit of £7,500 per year (£144 a week) to be imposed on FSM entitlement:

Figure 6

HOUSEHOLD INCOME UNDER UC[49] FOR LONE PARENT WITH THREE CHILDREN WITH EARNINGS LIMIT OF £144 PER WEEK FOR FSM ENTITLEMENT



(Where rent is £85 per week, council tax is £15 pw the family are in receipt of FSM which is included as equivalent cash value[50])

It is clear that this situation would create a severe work, and work progression, disincentive. A family earning £143 per week would be substantially better off than a family who (as a result of taking on additional hours or receiving a pay rise) earned just over the £144 threshold.

In the case given, the person's earnings would need to increase by £4,500 a year[51] before their overall income[52] reached the level it was at when their earnings were below £7,500. This is likely to be exacerbated as the family would also lose the additional entitlements that are provided locally as a result of the receipt of FSM.[53]

Recommendation 19: The Government need to consider alternative options for provision of FSM which would ensure that this did not create a substantial benefit cliff edge which leaves low income families worse off for earning more. We believe that the best way to address this is to extend FSM to children in all families eligible to receive the UC.

Recommendation 20: In order to reduce the cost of extending entitlement, the Government could consider asking for part payment towards their additional FSM entitlement from those families who are brought into entitlement by the new rules.

The full costings of these recommendations and proposals for dealing with FSM under UC are included in the attached paper *"Fair and Square"*.

7. UC and the Household Benefit Cap

The Children's Society has a number of concerns over the operation of the household benefit cap under UC.

(i) *The links with in-work rules under UC*

Under the current benefit system, exemption from the out-of-work benefit cap will be based on Working Tax Credit entitlement. Under UC this will no longer apply, instead:

(i) The household will be exempt from the cap where their earnings are at or above £430 per month.

(ii) The nine month grace period for the household benefit cap will apply where households have had earnings above £430 per month for each of the previous 12 months.

[49] Based on out of work benefit levels for Feb 2012

[50] £1,100 annual value for three children is worth £21 per week when divided equally across the course of the year.

[51] From £144 to £231 per week.

[52] Including the value of FSM.

[53] Including uniform allowances and reduced price access to leisure facilities.

We are concerned that:

(1) Term-time workers will be affected by the cap in school holidays, and will find it impossible to "earn" the grace period since they will never have 12 months where their earnings are above the level prescribed.

(2) Although counted as earnings towards exemption from the benefit cap, the rate of Statutory Sick Pay (SSP)[54] is not sufficient to meet the earnings requirement. Therefore, SSP claimants will become affected by the cap, despite remaining in employment. Also, a period of sickness could mean an employee loses entitlement to the grace period.

(3) Also, although counted as earnings, Statutory Maternity Pay (SMP) may be paid at a rate which is too low to meet the earnings requirement, even if they had income too high for the cap prior to taking maternity leave. Maternity Allowance (MA) is not counted as earnings.

This means that mothers taking maternity leave to have a child, and in receipt of SMP or MA, may be affected by the cap during their period of maternity leave, or lose their entitlement to the grace period of exemption from the cap after their maternity leave ends.

Recommendation 21: Households in receipt of SSP, SMP or MA should be treated as meeting the earnings figure for any month in which they receive one of those benefits.

The "earnings figure" for in work exemption from the out-of-work benefit cap has been set in the regulations at £430 per month. This is slightly higher than 16 hours per week at minimum wage for those aged 21 and over. However, it is around £85 per month higher than the equivalent of 16 hours per week at the national minimum wage for 18–21 year olds.

Recommendation 22: The earnings figure should be set at 16 hours at the minimum wage for the benefit claimant to ensure that it both reflects different minimum wages for different age groups and is automatically uprated with the minimum wage rate.

(ii) *The implications for the monitoring and evaluation of the impact of the cap*

We welcome the Government's assurances that they will monitor the impact of the household benefit cap and review it in 2014 following its first year of operation.

Recommendation 23: Given that around three quarters of those affected by the cap are children, it is particularly important that the review pays specific regard to the impact of the benefit cap on the well-being of children. It is important that as part of this the review considers:

— the numbers of children affected by the cap;

— the impact on where families with children are able to live;

— the impact on the income of families with children, and in particular the impact on household spending on children's needs;

— the impact on child poverty levels and on levels of material deprivation among children; and

— children having to move school as a result of the cap.

17 August 2012

Written evidence submitted by Citizens Advice

Summary

1. Citizens Advice has long stressed the need or the social security system to be more simple for the claimant and we have welcomed the objectives of Universal Credit to simplify the system and to make work pay.

2. We have however identified some clear risks that the Government will have to tackle if they are to meet their own objectives and we have made some recommendations on how best we think they can be tackled.

3. Over four years around 8 million households will be transferred onto Universal Credit during which time there will be effectively three parallel systems in place (existing and new claimants and those with transitional protection). This could lead to the potential for people to not get the support they are entitled to and DWP, local councils and MPs constituency offices being flooded with people seeking help.

4. The Government needs to commit extra resources to Citizens Advice and the wider independent advice sector and to train advisors on the new system so that people get the right information and advice every time.

5. The new universal credit system will be "digital by default" which risks causing difficulties to the 8.5 million people who have never used the internet and a further 14.5 million who have virtually no ICT skills.[55]

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[54] Currently £85.85 per week

[55] ONS Statistical Bulletin Internet Access—Households and Individuals, 2011 http://www.ons.gov.uk/ons/dcp171778_227158.pdf

6. This is a bold move using a brand new system, pushing people to use internet when they may not feel comfortable, secure or equipped to do so. Our bureaux network will need support to give the help and reassurance people will need to deal with this change. The Government will also need to extend provisions for face to face support so that those with pronounced needs are not defined by narrow criteria such as those already in contact with adult social care.

7. Citizens Advice has conducted detailed economic modelling which demonstrates that disabled people are more likely to lose significant amounts under Universal Credits than any other group.

8. Severely disabled adults with no carer will lose up to £58 a week (over £3,000 a year), disabled adults who are fit for work but are unable to earn enough to support themselves fully will lose significant amounts with many losing around £40 a week and families with disabled children will lose £29 a week (around £1,500 a year). If the Government wants to protect the most vulnerable disabled people they need to either demonstrate clearly that they have investigated the impact of these changes and are satisfied that these people will not be adversely affected by this reduction in financial support or change these aspects of UC to protect them from the worst impact of the cuts.

9. Sanctions will not work if DWP do not take account of a claimants situation and the claimant does not understand what is required of them.

10. Claimants need to be fully involved in discussions with DWP to agree their claimant commitment. This will help ensure that work search requirements fully reflect their experience, skills, and any barriers and make it clear to both parties what they need to do to avoid any sanctions and what support is available to them. DWP also need to proactively seek to find out if there is a good reason why a claimant had failed in any part of their commitment before sanctions are imposed rather than leave it up to a vulnerable client to explain their situation.

11. The Government's proposals to simplify the policy on earnings disregards have actually made it much more complex for some claimants to ensure that getting more work will actually pay, particularly low income home owners, parents of large families and some groups of disabled people.

12. DWP need to rethink their changes to maximum and minimum disregards so that it will be clear to claimants that they will earn more by taking on more work.

13. An uncoordinated approach across departments to passported benefits is likely to mean that Universal Credit will fail to deliver on the Government's aim that work should always pay.

14. DWP need to take the lead across government departments to ensure that passported benefits such as free school meals support the objective of making work pay as well as meeting each department's own objectives such as for example, ensuring the poorest children get a healthy school meal. They need to make the Universal Credit system is flexible enough to adapt to ensure that their aims are met.

15. The Secretary of State has described the introduction of Universal Credit and the accompanying reforms to the social security system as the biggest shake-up of the welfare system since the 1940s. With these massive challenges facing the policy we are firmly of the view that these changes need to be implemented properly, given time to work and their impact assessed before any further reductions in entitlement to means tested benefits are considered.

Introduction

16. Citizens Advice welcomes the opportunity to submit comments to the Work and Pensions Select Committee's inquiry into Universal Credit.

17. The Citizens Advice service provides advice from over 3,500 outlets throughout England and Wales. We provide advice from a range of outlets, including GPs' surgeries, hospitals, community centres, county courts and magistrates courts, and mobile services both in rural areas and to serve particular dispersed groups.

18. The service has two equal aims:

— to provide the advice people need for the problems they face; and

— to improve the policies and practices that affect people's lives

19. In 2011–12 the Citizens Advice service helped over 2 million clients with 7 million enquiries including 2.3 million benefits enquiries. In the last year we provided advice to 700,000 individual clients regarding a benefits query. 90% of these were of working age and therefore will be affected by the forthcoming changes to the benefits system following the Welfare Reform Act

20. Benefits is now our main enquiry area, replacing debt advice for the first time in many years. A third of all our advice given is about benefits.

21. As well as giving advice, the majority of Citizens Advice Bureaux deliver financial education initiatives to their community. In 2011–12 there were 280 Citizens Advice Bureaux that delivered financial capability services. Collaborating with other agencies through the network of financial capability forums, bureaux and forum members deliver initiatives that benefit a quarter of a million people a year.

22. Our work with benefits claimants makes a difference—a snapshot of our client records in February 2011 found bureaux had helped 142,000 clients to claim £748 million in benefits they were entitled to in 2010–11 but could otherwise have missed out on, either because they did not know what they were entitled to or could not navigate the system.

Specific Comments

The proposed arrangements for claims and payments and the provision of support and advice for claimants, including the presumption of a predominantly online, self-service claims process; monthly payment to one person in the household; and arrangements for providing telephone and face-to-face support and independent advice for claimants who need it.

23. As the Secretary of State has said the changes introduced under the Welfare Reform Act 2012 represent the biggest shake-up of the welfare system since the 1940s. As by far the largest provider of independent advice on welfare we are expecting a massive increase in the demands for our service as 12 million people are moved onto the new universal credit system. We are conducting a fundamental review of how we are going to cope with the increased demand and the need to retrain advisors throughout the country so that they can ensure that they are giving the correct advice.

24. In the long-run Universal Credit will have the potential to be simpler for both clients and advisors but up until 2017, but there will be four years over which migration will take place. It is vital that during this transition period when there will be three parallel systems (existing and new claimants and those with transitional protection) in place, that DWP work with us to ensure that the advice sector have the right resources to rise to this challenge.

25. This demand has to be set within the context of the Citizens Advice Bureaux facing funding cuts of 21.2% in the last two years and more cuts expected in the coming years.

We have identified a number of key risks which we believe DWP need to consider in this area:

— Many claimants will feel a high level of stress and anxiety moving onto a new system. Clients will make "so-called" unnecessary contacts with the DWP service worried about the process and the changes, causing increased demand and unnecessary costs.

26. Citizens Advice will be able to help negate this problem if clients are able to make contact with our service to help them understand the impact of any changes and to see that work can pay for them.

— There is significant potential for error and confusion in the transfer period for both claimants and front line workers dealing with a number of different systems. This could lead to people missing out on what they are entitled to and major difficulties for DWP advisers.

27. Citizens Advice will need to have adequate resources to ensure that throughout our network we are ready to deal with the new system from the start of the complex change over period including ensuring our advisors are properly trained.

— A change from several payments at different intervals in a month to different partners in a couple, to one monthly payment to one person in the household carries with it huge risks. Clients who are dealing with tight budgets with little experience of monthly pay packets risk getting into debt with and there is potential for abuse in situations such as for those in domestic violence situations.

28. DWP said that they wanted to introduce monthly payments as it would prepare people for the world of work. While it is true that most employees in professional positions are paid monthly, according to DWP's own figures around half of all low earners do not receive monthly pay packets.[56]

29. DWP have already agreed that there will be exemptions for people who will have difficulty caused by the payment system and we welcome steps by them to set out when payments should be made more frequently or directly to a landlord. However, it makes no sense to wait for someone to get into financial difficulty before DWP decide to make them an exception. The assessment process needs to proactively assess whether a different payment system would be more suitable in order to prevent debt and financial hardship.

— There are fundamental issues in delivery by an online process—ie low levels of literacy, numeracy and digital skills, along with issues such as learning difficulties and mental health. There are 8.5 million people who have never used the internet and a further 14.5 million who have virtually no ICT skills.[57]

[56] DWP Universal Credit Policy Briefing Note 2 The payment proposal http://www.dwp.gov.uk/docs/ucpbn-2-payment.pdf

[57] ONS Statistical Bulletin Internet Access—Households and Individuals, 2011 http://www.ons.gov.uk/ons/dcp171778_227158.pdf

30. While the system may be digital by default, DWP need to make significant provisions for people for whom a purely online access system will prove to be unworkable. The system cannot assume that everyone is going to have constant access to a computer when there are 5.7 million households without internet access[58]. Even if someone is able to access a public computer to fill in an online form they are unlikely to be able to receive emails to let them know how their applications are being processed or if they need to do anything else.

31. The support required by those who cannot access or use online systems is a complex area. The Government Digital Services team recognises that these needs can only ever be addressed by partnership working—as no one organisation can cover everyone's needs. There will be a high number of people who will need permanent support in using or accessing online Government services, especially Universal Credit. That means factoring in support needs for the longer/permanent-term as well as the transition period.

32. DWP have said in meetings with the advice sector that arrangements for face to face support is going to be based on those with pronounced need, for example, who already have contact with adult social care. This is too narrow and excludes those who may have chosen not to engage with adult social care as well as others whose vulnerability is not defined by access to social care.

Progress with developing the necessary IT systems to administer Universal Credit, including the real-time information (RTI) system for PAYE taxation being developed by HM Revenue & Customs.

Making sure the IT system does not stop people being able to access advice

33. Access to the Universal Credit system will be via the online channel whether the client self serves, phones DWP for them to input to the online system or gets face to face help to complete online. Clients will have to pass through identity assurance processes to access the universal credit system. This is likely to be through first logging into their bank or utility company account.

34. It is not yet clear how intermediaries such as advisers in a bureaux will be able to access the universal credit system on behalf of clients without having to first pass through the clients personal security information. It is vital that a secure access route is available for advisers from day one.

35. When contacting DWP on behalf of a client now (via telephone), using implicit consent, an adviser is able to get information about a client's claim on their behalf. When contacting HMRC a bureaux can set up authority for them to represent a client through the use of a form of authority that is then set up on the system so they can call on a claimant's behalf.

36. DWP must urgently work with the advice sector to design an alternative method of access to ensure that Citizens Advice Bureaux and other advice and representative organisations can give clients the support that they vitally need.

Making sure IT works, is user friendly reliable and interactive.

37. Getting the IT right is unquestionably vital. It is unthinkable that there could be a repeat of the introduction of the tax credits system—IT errors led to calculation errors, duplicate payments or payments stopping without warning or explanation. In the first 18 months of operation HMRC made 21,000 compensation payments.

38. Award notices lacked information sufficient to enable a claimant to understand their entitlement or how any overpayment has arisen or how it was being recovered and what changes of circumstances they were required to report when.

39. The IT design approach meant that faults once spotted could not be corrected, or improvements implemented for many months.

40. Lessons must be learned to ensure IT failure does not cause huge administrative problems; information on award notices—printed as well as online must be clear with access to further information about entitlement accessible.

41. We therefore welcome the DWP's use of agile design for Universal Credit. We hope that user testing at the design stages should ensure that it is accessible at the start but the agile approach should clearly make it easier to correct or adapt processes as necessary.

42. One of the key benefits of Universal Credit is the fact that claimants will not need to report changes of circumstances several times to several different Government departments—and specifically will not need to report earnings at all because HMRC will pass this data to DWP through the RTI system. For self-employed claimants it is not yet clear how this will work.

43. IT must be user-friendly—particularly for claimants who will for the first time have to report childcare costs every month regardless of whether they have changed since the previous month—far more frequently than they currently have to report. DWP must consider ways to prompt claimants through text as well as email alerts.

[58] ONS Statistical Bulletin Internet Access—Households and Individuals, 2011, p5 http://www.ons.gov.uk/ons/dcp171778_227158.pdf

The proposed arrangements for the "claimant commitment", sanctions and hardship payments. The proposed arrangements for the "claimant commitment", sanctions and hardship payments

- — The claimant commitments must be drawn up with the claimant, ensuring skills, experience and any relevant circumstances are recorded. Enabling DWP to provide the right support to the claimant and preventing inappropriate sanctions.
- — A claimant charter is needed to set out minimum standards of support and treatment for claimants.
- — Safeguards must be put in place to prevent inappropriate hardship and debt.
- — The impact of sanctions on well-being and labour market activity needs to be monitored. Monitoring and evaluation of claimants' work and earnings progression should separately identify the impact of sanctions and support.
- — The Claimant Commitment.

44. The Claimant Commitment could be a really useful tool in increasing understanding of both claimant and DWP of responsibilities and requirements. The Citizens Advice service deal with over 8,000 JSA sanctions and hardship enquiries every year. Commonly clients express that they did not know why they had been sanctioned and had little or no warning in advance of it being applied. Many clients are vulnerable, with health problems, disabilities or literacy needs, were unable to comply with the requirements and appear to have had little support to find work.

45. For those in-work and receiving Universal Credit, we hope that the Claimant Commitment will improve understanding that leaving work or reducing hours below the conditionality threshold will result in a sanction. The Commitment also requires claimants to provide accurate information and report changes of circumstances in a timely fashion.

46. The Welfare Reform Bill provides that the Claimant Commitment be completed by the Secretary of State and updated as he sees fit. We believe that this should be a two-way process with the claimant fully involved in discussions with DWP to ensure that the work search requirement fully reflected their experience, skills, and any barriers to work. This would increase the likelihood of a claimant finding work and getting any appropriate support required. We would like to see clear guarantees that there will be a significant change from how things operate now.

Effectiveness of sanctions

47. If a sanction is to be fair and effective, the claimant must understand what is required of them and they must be able to meet that requirement. Once referred for a sanction the claimant must also understand why, in order to be able to prevent it from happening again.

48. Research has found little evidence to support the effectiveness of sanctions in moving claimants closer to the labour market. JRF review of sanctions research found claimants who have been sanctioned are more likely to experience low wages and high job churning[59] New Deal claimants who had been sanctioned and experienced hardship were much less likely to be in employment than those who had not been sanctioned and those who had been sanctioned but had not experienced hardship.[60]

49. We are concerned that the effectiveness of a sanction may be limited by the fact that it will remain in place even when a claimant finds work. Plans to make hardship payments recoverable also mean that the impact of the failure to comply will last for many months—three for the first low level sanction and then several months after for the recovery of the hardship payment. Whilst the plan to suspend and potentially write off the recovery of hardship payments for claimants who have found sustained work is welcome, this is just a small step in the right direction.

50. Evidence from our CAB advisers question the effectiveness of sanctions in increasing the motivation and commitment to jobsearch.

> An East Midlands bureau recently helped a man in his early twenties who was struggling to meet his financial commitments due to sanctions for ostensibly not showing enough commitment to work. The bureau believed that despite a few failures to comply with requirements he was genuinely looking for work and that the sanctions had only served to interrupt his jobseeking as he was frequently thrown into crisis situations and having to focus on trying to reinstate his benefits and manage a growing debt problem. The approach appeared to be punitive rather than supportive and in the bureau's view completely counterproductive.
>
> He left a job in April 2011 and applied for JSA but was sanctioned for six months for not having a good enough reason for leaving work. Before his sanction had expired he was given a second six month sanction for failing to apply for one of the jobs identified for him. During this time the client was placed on an Employment programme but though he attended all subsequent sessions, he failed to attend the first one and was sanctioned again. He had been told that his Housing Benefit and Council Tax Benefit would stop unless he provided details of

[59] Griggs J and Evans M, Sanctions within conditional benefit systems; a review of the evidence, December 2010
[60] Bryson A, et al New Deal for Young People National Survey of Participants 2001

> his benefit income, which he couldn't do whilst appealing. He had significant rent arrears and utilities debts and his energy supplier was threatening to fit a pre-payment meters for his fuel.

Protecting vulnerable claimants from hardship

51. The system for sanctions as it is currently proposed will make it very hard to protect the most vulnerable from serious hardships. Sanctions can mean a claimant losing out on all the adult rate of their Universal Credit for three months for the first failure, six months for the second and three years for the third.

52. The Government has said it will consider good cause or good reasons for non-compliance prior to sanction. They will however only visit those with limited work-search requirements if there is a good cause or reason for their non-compliance. This needs to be extended to other groups if they are to prevent the vulnerable from unnecessarily suffering hardship by relying on them to provide evidence un-prompted. As the most vulnerable are likely to find it hard to express good cause you can't assume that just because a claimant has not given a good reason that there is not one.

53. Citizens Advice evidence shows that the most common reason for sanctions was a claimant's failure to apply for specified jobs. Evidence from advisors show that most claimants in this situation have not understood that it was a "direction" rather than a suggestion. So when there was a good reason why they didn't apply—for example finding on receipt of more details for example that they did not have the necessary qualifications or experience, they did not tell their jobs seekers office and were hit by a heavy sanction.

54. Currently regulations do not require that the claimant commitments should note any relevant health condition or disability that would affect a claimants ability to comply with specific work-related requirements. This has meant that many claimants have had benefits taken away from them because they did not apply for a job which would have been unsuitable for them because of their situation. Cases below illustrate:

> A bureau in the South West recently saw a man who was sanctioned with no notice for failing to apply for a 40 hour a week job. This is despite the fact that his Jobseeker's Agreement gave discretion for him to limit his hours to 24 as he was a full-time carer for his disabled partner and their six children, two of whom were seriously disabled.
>
> A Yorkshire client went to sign on and was told that he had not been doing enough to seek work. The client had been using job points and looking for jobs in the local paper. He is also doing an ESOL course which includes working towards writing a CV. His Jobcentre Plus adviser told him that this was not enough but did not tell him what else he should be doing. The letter refers him to a form to apply for a hardship payment but the form was not given to him and hardship was not discussed with him. He lost his JSA, HB and CTB for two weeks. He had no heating or water and was getting food from his local church.
>
> In the South of England a vulnerable young client who suffered from depression, and a speech impediment that made it difficult for him to communicate over the phone turned to his local Citizens Advice Bureaux for help. He had been sanctioned for failing to attend an anger management course that he couldn't get to by public transport and struggled to phone to explain—he was sanctioned again for failing to attend a job interview when facing a crisis at home.

Changes in the income entitlement of disabled people under Universal Credit, including those who may receive less income under Universal Credit than at present

55. Support for disabled people is being restructured under Universal Credit. Citizens Advice, The Children's Society and Disability Rights UK have recently published a report, Disability and Universal Credit which uses a series of scenarios, to unpick some of the complexity of who will lose or gain. It is available on our website and goes into to more detail than is possible here.[61]

56. The Government has said that any savings from the reductions outlined below will be used to increase the means-tested addition for claimants in the Employment and Support Allowance support group.[62] However, we do not believe the current proposals meet their objective of supporting those with the greatest needs and explain why below.

57. Whilst couples with someone in the support group will gain from this restructuring, those in the support group who live on their own and do not have a carer will be worse off under Universal Credit.

58. DWP has not presented any evidence that disabled people in the support group who live on their own will be able to cope with the significant cuts they are going to face. We have therefore made recommendations to help this group which we believe could fit easily within the universal credit structure and would also meet the Government's other objectives of simplifying the system and improving work incentives—we think that with these in place the support component could then be increased when money allows.

[61] http://www.citizensadvice.org.uk

[62] Currently £49 a week (single person), £57 (couples) to an eventual £80 a week

59. There are three changes which are likely to lead to significant losses for some groups of disabled people:

- *There is to be no equivalent of the Severe Disability Premium (SDP) in Universal Credit.* Under the current means tested system severely disabled adults for whom no one claims carers allowance and who live on their own, live only with dependent children, or with another disabled adult, are eligible for the SDP worth £58. This recognises that they are likely to have extra costs (such as needing help with small household jobs) which someone with the same level of impairment but who has a partner or carer, won't face. They are eligible for this premium whether they are in or out of work. For disabled lone parents, receiving the premium can help reduce the pressure on their children, often of school age, to care for them. Under universal credit households with an adult carer will be eligible for the carers addition (£33) even if they are working fulltime. We recommend that either the SDP is retained or if this is not possible, a "self-care addition" be paid at the same rate as a carer's addition for severely disabled adults who have no-one in receipt of the carer's addition.
- *No equivalent of the disability element of Working Tax Credit (WTC) for those found "fit for work"*. The regulations make clear that the only extra means-tested support disabled adults will receive in Universal Credit will be through the Work Capability Assessment (WCA). Many people who have extra costs in work and would be eligible for the disability element of WTC would be found fit for work under the WCA and so will receive no more financial support in Universal Credit than someone without a disability. Yet, they will have extra costs in work which will not be covered by "access to work" (such as needing to pay a cleaner because their condition means they haven't energy for both work and chores). We recommend that the WCA has an extra stage whereby someone who is found fit for work but still has a significant level of functional impairment, would be eligible for the disability earnings disregard (worth an extra £18 for someone in work).
- *Reduced disabled child additions.* At present, families with a disabled child may be entitled to receive support through the disability element of Child Tax Credit, currently worth £57 a week. Under Universal Credit, families with a disabled child will see this extra support reduced to £28 per week unless the child is receiving the higher rate of the care component of Disability Living Allowance (DLA) or is registered blind. There are two key groups who will be most affected by this reduction in support:
  - Families where no-one can work because of their caring responsibilities. We recommend that the disability additions for children remain at their current rate.
  - For those who can work, the picture is much more complicated, but many of these households are also likely to be particularly adversely affected by the cuts to support for childcare for those on a low income and living in rented accommodation.[63] Parents of disabled children are more likely to have to use formal childcare, the childcare is frequently more expensive and is often needed for more years than for a non disabled child. We recommend that 80% of the childcare costs for disabled children be paid rather than the 70% of childcare costs which is to be paid for other children.

The impact of the changes on Local Authorities, including budgets, staff and support for claimants. The changes include those to housing benefit; the introduction of the benefit cap; and localisation of council tax support.

60. Local authorities are grappling with future resource requirements coming out of welfare reform in order to deliver the flexibility needed to manage peak demand and mitigate the impact on quality and levels of service delivered to claimants. Advice services provide a way of extending local authority capacity around welfare benefit advice and support through existing specialist expertise found within the community. Offering a cost effective, resilient and more sustainable solution that taps into local civic resources, trained volunteers are able to bolster the Local Authority's own welfare benefit support.

61. Citizens Advice Bureaux as existing partners to most Local Authorities across England and Wales are well placed to help develop effective, client-centred responses to the following challenges for Local Authorities:

- delivery of the new localised support for council tax;
- supporting people in need from a new localised welfare assistance budget (replacing crisis loans and community care grants);
- the introduction of both a housing benefit and overall benefits cap;
- supporting people forced to move from accommodation that is no longer affordable;
- administering benefits for displaced families in receiving councils;
- increases in rent and council tax arrears (prevention and early interventions);
- providing advice and support to help people understand and deal with the new processes surrounding welfare application, support and payment arrangements; AND
- working to address perceived unfairness of variations in localised support for council tax.

[63] 70% under UC, 95% under current system (70% through WTC & 25.5% through increased HB&CTB)

62. Many bureaux are already working with their respective Local Authorities on the aforementioned issues, to develop new ways of working that respond to the local challenges that come with welfare reforms.

The level of the earnings disregards

63. The Government have recently made two "simplifications" to their policies on earnings disregards which will in fact make it much more complex for a claimant to know whether work will pay and how much.

Maximum and minimum disregards for housing costs

64. Everybody has a maximum amount of Universal Credit they are eligible for depending on their circumstances. The essential requirements for understanding whether work will pay is knowing what that maximum level of Universal Credit is and how much money you can earn before you start losing any of your maximum amount of Universal Credit (your earnings disregard).

65. The original proposal by DWP was to have a maximum disregard for someone who has no housing costs included in their maximum Universal Credit and then to taper the disregard depending on the amount of housing costs until a minimum level for the disregard was reached. This produced a very fair system as it meant that those with low or no housing costs received the same level of help with their personal costs at someone else with housing costs at the same level of earnings.[64] This made it slightly complex to work out your personal disregard level but once given that by DWP, it would be possible to work out for any change in earnings, what your net income would be.

66. The Government are now planning to take this taper away and instead apply a lower disregard for a household who has any housing costs included in their Universal Credit award. This makes it superficially simpler but actually introduces significant new levels of complexity.

67. Under the new proposal at low levels of earnings, a claimant would be better off having their housing costs included in their maximum Universal Credit. However, for those with low housing costs, once their earnings become higher, they will be better off by not having their housing costs included because they would be pushed onto the lower earnings disregard.

68. However, it will be very difficult for a claimant to know whether they would be better off with a higher disregard and no housing costs included, or the lower disregard with their housing costs included. This will be an ongoing problem. As their earnings fluctuate there will be a change in the rate of gain for different levels of earnings—and a point at which they should request their housing costs to be included or excluded—a much more complex series of calculations to work out .

69. We believe the Government need to reinstate their original proposals to have a maximum and minimum disregard floor and gradually taper the maximum level to a minimum level by 150% of the amount of housing costs.

Number of children

70. The other "simplification" from the original proposals, was to set the same earnings disregard for all families, regardless of the number of children in a household. This will make it more difficult for larger families to make work pay, as the impact of losing free school meals at a particular income point will be greater. They are also likely to face higher childcare costs and therefore need a higher earnings disregard in order to make work pay. As it becomes less certain whether work will pay then better off calculations become more necessary and more complex. Under the current system, households with more children get a higher earnings disregard in the housing and council tax benefit rules—as child benefit is in effect disregarded twice.[65]

71. We believe that under Universal Credit, higher disregards for larger families remain necessary to support the principle that work should always pay.

Eligibility for and operation of passported benefits

72. DWP need to take a proactive lead working with other Government departments to ensure that entitlement to different passported benefits does not undermine the aims of making work pay and protecting the most vulnerable.

73. If it proves impossible for other departments to design their passported benefit schemes in ways that do not undermine DWP's objectives for universal credit, DWP must commit themselves to reassess aspects of universal credit regulations to ensure that work will still pay and the incomes of the most vulnerable are protected.

74. Passported benefits such as free school meals are an important financial benefit for families on low incomes. How entitlement to these benefits are set will have a huge impact in determining whether the Universal Credit system will succeed or fail in providing work incentives.

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[64] The tax credit system by having a disregard of £123 a week achieves the same so not having a maximum and minimum level would make it less fair

[65] Once by inclusion in the applicable amount and then again as a straight forward disregard

75. With Universal Credit available to families in an out of work, the Department of Education is most likely to set it's criteria for free school meals at an income or earnings threshold. However, this would have a massive impact on work incentives and family budgets around this threshold. If a family with two children increased their earnings to just one pound over the threshold, they could find themselves losing around £20 a week in free school meals. A point highlighted by the NAO in their recent report on means-tested benefits.[66]

76. This will make work incentives worse under Universal Credit than the current system. Families currently lose entitlement to free school meals with moving into work and claiming Working Tax Credits. Whilst this considerably reduces the gains from working, most families are still better off in work because of the Working Tax Credits that become available a this point.

77. DWP has currently asked all Departments to consider the impact on work incentives when setting their entitlement criteria for their passported benefits. However, with the current financial restraints and without any adaptations within the universal credit system, this is likely to prove impossible. It is therefore crucial that DWP take a more proactive role in co-ordinating and work more closely with other Departments and not just leave how work incentives are considered up to them.

78. As free school meals are one of the most significant passported benefits, we believe one possible solution would be for all families on Universal Credit to qualify for free school meals. The Government could recover some of the extra costs of this policy by reducing earning disregards for families.

79. Whilst setting criteria for benefit entitlement remains the responsibility of different Government departments, DWP must keep an abreast of the impact of their criteria on work incentives. If necessary tapers and disregards should be amended to ensure that incentives to work are maintained.

80. Several passported benefits such as partial help with dental or optical treatment require a claimant to give full details of their financial circumstances to a different department in order to access this help. Under universal credit, all these financial details will already be held and have been checked by DWP—it therefore makes sense for DWP to pass on to other departments details of which claimants will be eligible for these benefits. As well as simplifying the system for claimants, DWP taking the lead also offers the chance of making significant administrative savings for the Government.

Impact monitoring: what the DWP's priorities should be for monitoring the impact of the transition to Universal Credit.

81. When changes to the welfare system go wrong, Citizens Advice see the impact straight away as people come to CAB offices looking for help. We therefore understand the importance of DWP having a robust system to monitor the transition to universal credit.

82. The most important group that DWP needs to consider is the 2 million who would be worse off under the new system, particularly as those in the bottom two income quartiles are the most likely to lose out. They especially need to consider the 200,000 who lose more than £50 a week . The transitional protection will help but DWP need to monitor how this has an impact on behaviour as people try to avoid changing their circumstances in case they face a sudden loss and the added complexity to the system.

83. In particular we believe DWP should monitor:

— Overall better off/worse off picture. DWP should look at impacts as a whole. ie consider overall gains and losses for households including free school meals.

— Increased/reduced earnings and hours of Universal Credit recipients from the point of transition ie does Universal Credit create work incentives?

— Debt—monitor numbers/proportion of households who have faced debt or money problems within the first six months of transition to Universal Credit.

— Quality of communications—what do people understand about the changes and how they impact them?

— The simplicity test—ask people what they understand in terms of reporting requirements and what factors impact their entitlement.

— Impact on advice services—what do people seek advice about—is it needing help to claim, to understand entitlement, or has something gone wrong?

— Ability of claimants to manage their claims online

— All monitoring should break down by those who win/stay the same against those who will have lower benefit entitlements under Universal Credit.

— Are there a significant number of "missing claimants" who have been cut out by the on line system?

[66] NAO, means testing, HC 1464SesSIon 2010–2012 14 September2011

84. Citizens Advice can support DWP with their impact assessment. We record information on every enquiry across England and Wales by specific enquiry type and personal profile, regional breakdowns etc. We are able to provide a massive amount of quantative and qualitative data to help DWP with monitoring of impact of the introduction of Universal Credit and we are very keen to work with them to help them achieve the aims of making work pay and protecting those who need support the most.

Written evidence submitted by the Department for Work and Pensions

Introduction

1. Universal Credit aims to tackle the two key problems of poor work incentives and complexity in the current benefits and tax credits system. It will enable the system to help people to move into and progress in work, while supporting the most vulnerable. It will be simple to understand and administer and it will protect both the welfare of those most in need and the public purse. It will be a dynamic benefit, preparing the claimant for work wherever possible.

2. The written evidence provided seeks to address the individual lines of enquiry that the Work and Pensions Select Committee are particularly interested in. This document covers each point of interest in turn.

Migration to Universal Credit

3. When a claimant moves to Universal Credit they will bring all members of the household with them. Some claimant details will be carried over, for example claimants will not have to retake a Work Capability Assessment, and similarly a move to Universal Credit will not wipe the slate clean on outstanding debts, fraud penalties, or any waiting periods served to qualify for, for example, Support for Mortgage Interest.

4. The move to Universal Credit can occur in one of three ways:

- a *new claim*—from households who would otherwise have claimed one of the old working age benefits or Tax Credits;
- a *"natural" migration*—where a claimant is receiving a current income-replacement benefit but their circumstances change so they would need to claim a different income-replacement benefit or tax credit. They would instead need to make a claim to Universal Credit; or
- a *"managed" move*—where the claimant has no change of circumstances, and they are notified that they need to transfer to Universal Credit. If their new Universal Credit award is lower that their total legacy awards, they will be eligible to receive transitional protection.

Pathfinder and Phased Implementation

5. Universal Credit will launch in April 2013 for new claims and natural migrations from a small subset of the unemployed caseload in the North West of England (Tameside, Oldham, Wigan and Warrington). It will enable the Department to test a wide range of capabilities underpinning the end to end service in a live environment, for example:

- the new simpler, single benefit payment service;
- monthly assessment and award;
- some elements of the on-line service;
- the underpinning IT payment service;
- the end to end operational arrangements;
- handling of a range of change of circumstances;
- operational support for the new service;
- the relationships with Local Authorities and third parties;
- operational resilience;
- scaling factors in readiness for regional and national roll-out in October 2013;
- the relationship with Real Time Information (earnings) from HMRC for those claimants that return to work after April 2013; and
- the new Claimant Commitment focused on work outcomes.

6. The migration approach for phase one delivery will consist of a targeted take-up across Districts to shut down Job Seekers Allowance (JSA). From October 2013 Universal Credit will be introduced simultaneously across all seven regions (Scotland, Wales, North West England, North East England, Central England, Southern England, London and Home Counties) at a District level. Claimants who have a change of circumstances will also move onto Universal Credit during this phase through natural migration.

7. Phase two will begin from April 2014 where the Department intends to start taking new claims from in-work claimants, for example those who would have previously made a claim to Tax Credits. Universal Credit will also be available to new claimants that are out of work but are not required to actively seek work, such as lone parents with a child under five.

8. Phase three will consist of managed migrations where existing claimants whose circumstances have not changed will be transferred, starting in autumn 2014 to end 2017. The Department is working on the approach as to how this phase will be ordered; with the expectation to start with households with people that are in part-time work or that are economically inactive.

Entitlement Conditions

9. Universal Credit is an income related benefit for eligible single people and couples with or without children. An eligible adult is one who meets the basic entitlement conditions: to be 18 or over, under state Pension Credit age, in Great Britain, not in education and having accepted a Claimant Commitment.

10. Where the normal entitlement conditions are met there will be no entitlement to Universal Credit where a person is: a member of a religious order fully maintained by their order; a prisoner (except to the extent that support is provided for a temporary period for housing costs); or serving a sentence of imprisonment and detained in hospital.

11. Exceptions will apply to the basic conditions of entitlement as outlined below.

Young People

12. There are five categories of people aged 16 and 17 that will be able to get Universal Credit in their own right:

- those with dependent children—lone parents or couples;
- sick or disabled young people who have satisfied the Work Capability Assessment or are waiting to be assessed with medical evidence;
- those who are caring for a severely disabled person;
- pregnant whether living with their parents or not; and
- young people who are estranged from and cannot live with parents.

13. Young persons without parental support may be in non-advanced education, training or work. For other groups of eligible 16 and 17 year-olds, entitlement is subject to the rules on education.

Education

14. The following groups of full-time students in advanced and non-advanced education are treated as eligible for Universal Credit:

- students with relevant dependent children or young persons (including lone parents, a member of a couple who are both students and a couple where only one of them is a student);
- students who are foster parents;
- disabled students who are single or where they are part of a couple and one or both of them is disabled;
- students in couples where the other eligible adult is entitled to Universal Credit, ie where there are no children;
- students over the qualifying age for Pension Credit (in couple cases where one is over and one under that age); and
- for non-advanced education only, a young person without parental support (definition as for lower age limit exception) will be able to qualify up to age 21 or the end of the academic year in which they reach age 21 (or the end of the course if earlier).

People from Abroad

15. Entitlement to Universal Credit is based on a person living in Great Britain. A person meets this condition if they are present in Great Britain, have a right to reside, and are habitually resident in the United Kingdom, the Channel Islands, Isle of Man, or the Republic of Ireland (known as the "Common Travel Area").

16. EU claimants who come to the UK to seek work and those who retain worker status because they become unemployed only have a "right to reside" if they are seeking work. Any such claimants who are not seeking work will not be entitled to Universal Credit.

Temporary absence

17. In certain circumstances claimants will still be eligible for Universal Credit if the nature of their work means they are temporarily absent from Great Britain, for example airmen, continental shelf workers, mariners and armed forces personnel.

18. Where Universal Credit is in payment, a temporary period of absence abroad will be allowed for up to one month for any reason eg holiday, visiting relatives; or a longer period of up to six months for reasons of medical treatment.

19. Furthermore, the housing element of Universal Credit will be protected for up to six months where a claimant is imprisoned or taken into care.

20. Other forms of temporary absence would not generally make a person ineligible for Universal Credit, but can impact on the status of the household for Universal Credit purposes. Where an adult or child is temporarily absent from their household because they are in a residential institution, for example hospital or care home then up to six months temporary absence would be permissible and Universal Credit would be paid as if the adult or child what still in the household. After this point the person will no longer be treated as part of the household.

Claims and Payments and the Provision of Support and Advice for Claimants

Payment of Awards

21. Universal Credit will be paid on a calendar monthly basis in a single payment to reflect the fact that 70% of people in work are paid wages in this way.

22. This will enable low-income households to develop a greater responsibility for managing their household budget and support their transition into work.

23. Paying Universal Credit on a monthly basis will make it easier for households to take advantage of cheaper tariffs for essential costs such as utility bills. Increased financial responsibility will also allow households to improve their access to affordable credit.

Bank Accounts and Alternative Financial Products

24. Some claimants currently do not have access to a mainstream bank account. Work is underway with a range of banking and financial product providers to make financial services more accessible and supportive to low-income households.

25. Options are being explored for supporting claimants to access accounts or alternative financial products with additional budgeting functionalities, such as “jam jar” accounts.

26. The Department for work and Pensions are continuing to work closely with high street banks through the British Bankers’ Association to explore these options, whilst also working with providers of alternative financial products such as credit unions, prepaid cards and other new and emerging financial providers.

Personal Budgeting Support

27. It is recognised that some claimants may need additional help to budget, particularly during the transitional period from the current system to Universal Credit. Work is underway with the advice sector to ensure that claimants are able to access appropriate budgeting support services to enable them to manage their money successfully.

28. For some claimants an alternative payment arrangement may be needed to support them in the move to Universal Credit; this could be a more frequent payment than monthly, a split payment within the household or payment of housing costs made directly to the landlord.

29. The Government sees this as being time-limited and would look to put in place the appropriate support to help them eventually make the transition to the standard monthly payment.

Direct Payments and Personal Budgeting Support

30. In June 2012 the Government set up a series of Housing Demonstration Projects in order to assess the impact of paying housing benefit directly to the tenants. The projects will give the Department the opportunity to test the support required in order to: help claimants’ budget and manage their rent payments effectively, test what safeguards need to be in place to protect the landlords’ revenue streams, and consider those claimants who may be unable to manage the change to direct payments (both from the outset of Universal Credit and once established on the benefit). These projects will also be used an opportunity to explore what types of budgeting products can be used to support Universal Credit claimants in the longer-term.

31. The Department understands that many people on low incomes are used to budgeting on a fortnightly basis and may be concerned about moving to monthly payment. There will be appropriate budgeting support to ensure recipients are supported effectively. The Department is examining a range of options to support claimants as part of the move to Universal Credit and is carefully considering the welfare implications involved.

32. The Government wants families to be able to manage their affairs in a manner that best reflects the demands of modern life, whether in or out of work.

Payment Exceptions

33. Exceptions to payments being made directly to the household are not detailed in Regulations, but will be in guidance. Formal guidance relating to payment exceptions will be shared in the winter of 2012.

34. Guidance will encompass rent payments made directly to the landlord, making payment more frequently than monthly and the provision of split payments. Intrinsic to this guidance, will be an overview of the circumstances in which any/all of the payment exceptions could be considered.

Universal Credit Online Service—Digital by Default

35. Universal Credit will be digital by default in line with a wider Government agenda of making services more efficient by putting them, where appropriate, online. This will mean a significant saving as every 5% of transactions through self service, achieves efficiencies of circa £5 million per annum.

36. The design of the Universal Credit experience will be compelling and as easy to use as possible so that it is an attractive proposition for claimants. In line with the objectives of Universal Credit, claimants are at the heart of the service and it is designed to put them in control of their circumstances.

37. Digital capability of claimants is an important factor for Universal Credit and claimants with good digital skills will be able to access more job vacancies, helping them back to work. Digital skills are a factor in around 72% of jobs.

38. Universal Credit makes more claimants employable and better able to get jobs. Over 8 million people in the UK don't use a computer, and 38% of these are unemployed. People without digital skills are likely to earn 10% less than people with digital skills and miss out on job vacancies advertised by 25% of employers who advertise online only.

39. People with poor digital skills are excluded from the 72% of jobs that require IT skills. In addition, people who do not transact online are missing out on up to £560 of consumer savings per year through, for example, securing cheaper utility deals and insurances.

40. Getting Universal Credit claimants to transact online will bring transformational benefits to their quality of life and help them become socially and financially included in today's digital world. Universal Credit supports households and claimants to become independent, socially included and productive.

How Digital by Default will be Achieved

41. In order to achieve the Government's aim of Digital by Default, the Department has developed a high quality of service design, working with claimants to design a user driven service.

42. A key focus within this development is helping to get the offline, online, and the Department has been working across government joining up efforts and initiatives and working with digital champions.

43. Universal Credit will be supplemented by a number of alternative channels to support the online service including: telephony assisted telephony, agent-led and high street channels. All of these alternative channels are designed to support claimants to claim Universal Credit online and support them to stay online.

Universal Credit Face-to-Face Services

44. The Government recognises that there will continue to be some claimants who cannot use digital online services. For those claimants with complex circumstances or with particular needs, alternative access routes will be offered along with needs based support to access online services, including support in a face-to-face environment.

45. Claimants will be supported to use other channels as soon as it is practical to do so and providers of the Universal Credit face-to-face channel must be advocates of the digital online service.

46. From 2013, Universal Credit face-to-face will include work services provided by Jobcentre Plus and Welfare to Work Programme providers. Other requirements for face-to-face services, particularly for people with high-support needs, will use the best of local capabilities. All services will be delivered by the Department for Work and Pensions and its delivery partners, including Local Authorities and their wider supply chains.

47. Local Authorities already play an important part in supporting people who need additional help to access services, and will have an important role to play in the delivery of Universal Credit. The Department will continue to work with Local Authorities to ensure the right level of support is available to claimants in their local area when they move onto Universal Credit.

48. An internal National Service Framework is in development to articulate the required services to deliver the face-to-face strategy. This framework will be used as a set of guidelines to help the Department work collaboratively with Local Authorities as plans for local service provision are developed.

Progress Developing the Necessary IT Systems to Administer Universal Credit

49. The Pathfinder in April 2013 will prove the core Universal Credit policy and supporting processes, some of which will be automated, including an on-line claiming process. The design for these IT systems is now in its closing stages, with the build plan on track to complete at the end of October 2012

50. Rigorous, integrated IT testing has also commenced and will continue until February 2013, bringing together Universal Credit and the various external system changes, such as the Real Time Information system. There will be a number of Service Tests which will involve claimants throughout this period.

51. October 2013 will see us start to roll out this core Universal Credit service incrementally in each region of Great Britain. It will also see us deploy the next series of functionality and processes in to the Pathfinder sites. Early scoping and high level design work has now started on this, which will focus on the delivering digital (by default) processes. The programme will continue to build iteratively the functional capability to add automation and integration through to October 2015 and beyond.

Contingency Plans

52. There will be robust standby arrangements which will enable the IT system to be fully recovered within a short period of time. These standby arrangements will cater for both failures within the Universal Credit IT System and possible catastrophic outage of infrastructure (ie Data Centre outage).

53. The Department for Work and Pensions is recognised as having some of the best contingency arrangements in place across Government. Should there be a catastrophic outage of IT; arrangements are in place that can be invoked to ensure people continue to get their money.

54. Existing contingencies are regularly reviewed to ensure they can be strengthened and to identify where new contingencies may need to be developed so people continue to receive the best service possible. Contingency arrangements are being considered to ensure that no one will lose money when there is a disruption to on-line service. Whether claims can be made and progressed through our other secondary channels such as telephony and face to face is being examined as part of the in-depth analysis currently being undertaken.

Real Time Information

55. PAYE Real Time Information (RTI) is a major Government initiative that will ensure the PAYE system meets the needs of the 21st century. PAYE Real Time Information will improve the operation of Pay As You Earn for employers, HMRC and individuals. It is estimated that RTI will deliver c£300 million net reduction in administrative burdens for employers. PAYE reporting in real time will also support the introduction of Universal Credit.

56. The underlying process for PAYE remains unchanged, but Real Time Information fundamentally changes the way in which employers and pension providers report information to HMRC and the frequency of those reports. Information will be reported at the time a payment is made as part of the routine payroll operation, rather than at the end of the year. Additionally, the reporting of new employees and those who have left employment will be reported as part of the routine payroll function rather than a separate activity.

57. A pilot started in April 2012 to test the Real Time Information service and the IT and identify any issues which need to be resolved before most employers start submitting PAYE in real time in April 2013. The pilot is going very well and as a result Real Time Information is on track. So far there have been few issues and those that have occurred have been quickly resolved with ten volunteer employers. It was expanded on schedule in May to a further 310 PAYE schemes. Following the success of the first pilot stage, HMRC expanded the pilot again and by end July almost 1.8 million individual records were being reported in real time by 700 PAYE schemes.

58. The quality of data in the pilot has been good, with the numbers of individual records matching to a National Insurance number exceeding expectations. Where a PAYE scheme pays using Bacs, HMRC uses an automated cross referencing process to match the amounts shown on the RTI return with the amount actually paid. This process is producing high rates of matching.

59. HMRC is on track for around 1,300 schemes to be reporting PAYE in real time by the end of September and a further expansion in November. By March 2013 around 6 million individual records will be reported in real time by up to 250,000 PAYE schemes.

60. HMRC are seeing external confidence in the pilot and have therefore offered more large employers, payroll bureaux, new employers and software developers the opportunity to join the pilot or to expand existing involvement in advance of the launch date of April 2013. This approach will bring more individuals into RTI, ensuring HMRC is well placed to support the early stages of Universal Credit including Pathfinder when it starts in April 2013.

61. The remaining employers and pension providers will come on board from April 2013. HMRC are on track to have all employers and pension providers reporting PAYE in real time by October 2013—in time for the introduction of Universal Credit.

Contingency for RTI

62. Critical Failure Impact Analysis is under way for the complete service chain for Universal Credit, including systems already operating within the Department for Work and Pensions environment, and those operating within other departments. This analysis will identify areas of vulnerability and recommend action in any area where risk of failure is identified.

The Claimant Commitment, Sanctions and Hardship Payments

Claimant Commitment

63. To be entitled to Universal Credit, claimants must normally accept a Claimant Commitment. The initial Claimant Commitment will either be accepted as part of the normal claims process or, for people expected to search for work, will be drawn up during a face-to-face discussion. It will clearly record the expectations placed upon a claimant and the consequences of any failure to comply and will be amended on an ongoing basis.

64. If a claimant refuses to accept a Claimant Commitment they will not be entitled to Universal Credit. As Universal Credit is a household benefit any claim from a partner in the household will also end. Claimants who refuse to accept the Claimant Commitment will be allowed a "cooling off" period to reconsider their decision. They will also be able to ask for another adviser to reconsider the requirements within it.

Claimant Responsibilities

65. The Government expects Universal Credit claimants to do all they reasonably can to establish an adequate level of earnings. There are four basic types of work related requirement that can be imposed and recorded in the Claimant Commitment.

— Work-focused interviews.
— Work preparation.
— Work search.
— Work availability.

66. The requirements imposed on any individual will depend on the claimant's capability and circumstance. Claimants will fall into one of the following conditionality groups:

— *No Work Related Requirements*. This group for claimants who cannot work or prepare for work or if they are already earning above their conditionality threshold.
— *Work Focused Interviews Only.* This group is for claimants expected to stay in touch with the labour market and begin thinking about a move into work, more work, or better paid work.
— *Work Preparation*. This group is for claimants not expected to look for work but expected to prepare for a move into work, for example, participating in the Work Programme.
— *All Work Related Requirements*. This group is for claimants expected to move into work, or increase their earnings.

67. Claimants in the All Work Related Requirements group will normally be expected to meet work search and work availability requirements. However, the specific work (such as the type of employment and the hours of work) that a claimant is required to look and be available for will be tailored to the individual.

68. The application of all other requirements is discretionary. Therefore, as well as supporting the personalisation of requirements, the legislation provides for considerable flexibility as to what regime is put in place.

No Work Related Requirements Group

69. Claimants are placed in this group if they cannot work or prepare for work over a sustained period, or if they are already earning above their conditionality threshold. Claimants will include people who have caring responsibilities of at least 35 hours a week for a severely disabled person, lone parents with a child aged under one, and claimants who have been assessed as having a limited capability for work and work related activity.

70. The conditionality threshold is calculated based on the claimant's circumstances, but the principle which underpins this is that conditionality requirements will not be applied where an individual or benefit unit is

already earning all we could reasonably expect. This will be determined by establishing the number of hours the claimant can reasonably be expected to work (for threshold purposes this will be set at a maximum of 35 hours a week but adapted according to individual's circumstances) and multiplying this by the relevant national minimum wage for the age of the claimant.

Work Focused Interviews Only Group

71. Claimants whose only requirement is to stay in touch with the labour market will attend work focused interviews. They will not be required to apply for, or take up, a job or engage in work preparation activity. These claimants will include:

(a) the responsible carer of a child between one and five years old;

(b) a lone or nominated foster carer for a foster child under 16, or 18 if the child has proven care needs; and

(c) relatives or others who are responsible carers of a child who cannot live with their parents.

Work Preparation Group

72. Claimants in this group will be expected to prepare for a move into work but will not be required to take steps to apply for or take up work as a condition of their claim. This includes claimants who are assessed as having a limited capability for work but not a limited capability for work related activity.

All Work Related Requirements Group

73. This will be the default group for all claimants unless they fall into one of the other groups. Wherever a claimant is capable of work or of working more, they will be expected to take all reasonable steps to find and obtain work or more work or better paid work. Claimants will usually be expected to look for and be available for full time work and of any type. However, where appropriate given the claimant's circumstances and capability, this will be restricted such as limiting work search and availability to certain types of job or certain hours of work. For example where a claimant is a carer or has young children of school age. The claimant may also restrict availability for three months to a particular occupation and/or level of pay in line with current or previous work as long as they have a reasonable prospect of getting such a job.

Meeting Work Search and Work Availability Requirements

74. In order to meet a given work availability requirement, claimants must normally be available to immediately take up (or attend an interview for) work and do all they reasonably can to give themselves the best prospects of moving into work. In line with this, claimants will be expected to have spent up to 35 hours a week (or their agreed number of hours, if less) looking or preparing for work.

Claimants in Work

75. Universal Credit is designed to support people who are both in and out of work, and in particular to encourage and support those doing some work to progress and earn more in order to support themselves and their family. A number of features within Universal Credit come together to encourage this—especially the disregards and single taper rate; however it is understood that the work-related conditions applied can also be important. Traditionally, the "conditionality" regime in the benefits system has aimed mostly to move people from no work into employment. At the launch of Universal Credit, this is where the Department will continue to focus its efforts in terms of conditionality. However, it is looking to do more and will be exploring options with a view to carrying out pilots in the future.

Sanctions

76. Sections 26 and 27 of the *Welfare Reform Act 2012* (March 2012) provide for sanctions to be imposed on Universal Credit claimants who fail to meet conditionality requirements without a good reason.

77. Sanctions play an important role in underpinning this conditionality by encouraging claimants to meet the requirements that will help them, where it is appropriate, to move into or prepare for work. The sanctions regime is designed to drive engagement with requirements by providing:

(a) clarity about the consequences of non compliance;

(b) a clear and robust deterrent against non compliance; and

(c) tougher and clearer sanctions for repeated non-compliance.

78. In Universal Credit, there will be four levels of sanction. The table below summarises these. The level of sanction will depend on the conditionality group a person falls into. Claimants over 18 subject to high, medium and low level sanctions will be sanctioned an amount equivalent to the relevant Universal Credit standard allowance. Claimants subject to lowest level sanctions will be sanctioned an amount equivalent to 40% of the Universal Credit standard allowance.

Sanction Levels for claimants aged over 18

Sanction Level/reason	*Applicable to*	*Duration* *1st failure*	*2nd failure*	*3rd or subsequent*
High Level eg failure to take up an offer of paid work	Claimants subject to all work-related requirements	91 days (3 months)	182 days (6 months)	1,095 days (3 years)
Medium Level eg failure to undertake all reasonable action to obtain work	Claimants subject to all work-related requirements	28 days (4 weeks)		91 days (3 months)
Low Level eg failure to undertake particular, specified work preparation action	Claimants subject to all work-related requirements Claimants subject to work preparation and work-focused interview requirements	Open ended, until re-engagement, plus 7 days (1 week)	14 days (2 weeks)	28 days (4 weeks)
Lowest Level Failure to participate in a work-focused interview	Claimants subject to work-focused interview requirements only 1.	Open-ended until re-engagement		

Imposing a sanction

79. High-level sanctions will apply to claimants within the All Work Related Requirements conditionality group. These sanctions will be imposed for failure to meet the most important requirements, such as failure to apply for a particular vacancy without good reason or failure to take up an offer of paid work without good reason.

80. Medium-level sanctions may be imposed on claimants subject to all work- related requirements. These sanctions will apply when a claimant fails to undertake all reasonable work search action or fails without good reason to be able and willing immediately to take up work.

81. Low-level sanctions will apply to claimants subject to all work-related requirements or work–preparation *and* work-focused interview requirements. They may be imposed for failure to comply with requirements which are designed to help the move into or prepare for work without good reason. The sanction will be open-ended until a claimant has re-engaged after their failure, followed by a short fixed period sanction.

82. Lowest level sanctions will apply where claimants subject to work-focused interview requirements only, fail to participate in a work-focused interview without good reason. The sanction will be open ended. It will end when a claimant meets a compliance condition such as attending a rearranged interview (or the award is terminated).

Cumulative Approach

83. The sanctions approach will be cumulative. This means that where a claimant subject to one sanction receives another, the period of the second sanction would be added to first. Claimants' award amounts will be reduced for the entire duration of both sanctions.

16 and 17 Year-Olds

84. Certain 16–17-year-olds will be able to claim Universal Credit in their own right and could fall into any one of the conditionality groups depending on their circumstances. A sanctions regime which is specific to this claimant group will apply, mirroring the structure of the adult regime but with lower sanction amounts and shorter durations as set out in the table below. Sanction amounts will be 40% of the standard allowance for 16–17-year-olds.

Sanction level	*Duration* *First failure*	*Second failure*
Higher	14 days (2 weeks)	28 days (4 weeks)
Medium	7 days (1 week)	14 days (2 weeks)
Lower	Open-ended	Open-ended +7 days
Lowest level (claimants subject to work-focused interview requirements only)	Open-ended	Open-ended

Safeguards

85. The requirements placed on claimants will be reasonable, taking into account capability and circumstances, such as health conditions and caring responsibilities.

86. Sanctions will not be applied if a claimant can show good reason for non compliance. When decision makers are deciding whether to impose a sanction they must consider all evidence and information the claimant presents for that failure.

87. The Department will continue to contact claimants with a limited capability for work and a mental health condition or learning disability before determining whether a sanction should be applied. This contact will inform the decision on whether there was a good reason for the failure.

88. Claimants will be able to appeal any decision to reduce their benefit to the First Tier Tribunal, but only after they have first asked the Department to reconsider that decision. They must seek reconsideration within one month of being notified of the decision to sanction, or within up to 13 months if there are exceptional circumstances which the Decision Maker deems it reasonable to accept. The appeal must be lodged within one month of being notified of the outcome of the reconsideration.

Hardship Payments

89. Section 28 of the *Welfare Reform Act 2012* (March 2012) allows for additional payments of Universal Credit to be made where the claimants' award has been reduced as a result of a conditionality sanction and the claimant is or will be in hardship. Regulations make provision as to when a claimant is to be treated as being, or not being, in hardship.

Conditions for Hardship Payments

90. A hardship payment will be made to a claimant, who complies with their work search and preparation activities, and who can demonstrate that as a result of the sanction they cannot meet their household's basic and essential needs in respect of accommodation, heating, food or hygiene because of the imposition of a sanction.

91. To be eligible for hardship payments, claimants will need to demonstrate they are doing everything reasonably possible to access and rely on alternative sources of support and have made every effort to reduce non-essential expenditure. This requirement ensures that claimants act responsibly with the resources that are available to them and focuses those resources on the essential needs for their family.

92. Hardship payments in Universal Credit will only be available to those who have complied with their individual work search or work preparation requirements in the seven days previous to making their hardship application. They will be expected to continue making every effort to find or prepare for work to be entitled to hardship payments. This provides a continuing incentive to prepare for or to look for work.

Recovery of Hardship Payments

93. The Department will recover hardship payments made to claimants once the duration of a sanction is completed. A claimant or both claimants in a household must accept that hardship payments will be recoverable before any application can be considered. Recovery of hardship will be suspended if the claimant is in work and earning above their conditionality threshold. Once they have been in such work for six months, the outstanding balance will be written-off. Hardship payments cease to be recoverable where the claimant has been in paid work at or above the conditionality threshold for 182 days.

Period of Hardship

94. Where a Decision Maker accepts the claimant meets the conditions for a hardship payment, the period of payment will be from the date of application to the date prior to when the next payment of Universal Credit is due.

Amount of Hardship

95. Hardship will be paid at a rate of 60% of the daily amount by which the sanction reduced the claimant's Universal Credit payment. Hardship payments will not be accessible for 16–17-year-olds as sanction reductions will be made at 40% of their standard allowance, compared to 100% for those aged 18 and over.

Changes in the Income Entitlement of Disabled People Under Universal Credit

Policy Rationale

96. Under Universal Credit the Department for Work and Pensions wants to: encourage disabled people and those with health conditions to work where this is realistic for them; to target financial support on those who have the most severe disabilities or health conditions (including children with the most severe disabilities), and to simplify and rationalise the current complex and confusing system.

Work Support

97. Complex "Permitted Work" rules will be replaced with work incentives for disabled people via Universal Credit's flat taper rate topped up by a generous earnings disregard. The additions will be available to people both in and out of work, thus strengthening the incentives for disabled people to move into work. They will be provided with the right help including personalising back to work support, where there is a temporary fluctuation in a health condition which will see advisors being able to limit the type and amount of work-search activity required, taking into account the claimant's health.

Targeted financial support

98. It is intended that people who are assessed as having limited capability for work, or limited capability for work-related activity, should be provided with more support to reflect the extra costs of having on average longer durations on benefit. There will be two additions based on a single assessment: a higher addition for those with limited capability for work and work-related activity; and a lower addition for those with limited work related activity.

99. Savings achieved by these reforms through abolishing the severe disability premiums, will be used to target payments to those in greatest need by enabling a significant increase in the higher addition. There will be no direct passporting from Disability Living Allowance/Personal Independence Payments (except for children) so entitlement to an additional element within Universal Credit will only be for those who have limited capability for work or limited capability for work and work-related activity.

100. Claimants will qualify for either a disability or carer element not both, removing the current overlapping of provision that allows people to simultaneously claim an addition by virtue of a medical condition and a carer element for themselves. However, as now, couples could get a disability addition for one member and the carer element for the other partner.

101. While many people will benefit from Universal Credit, transitional protection will apply to current claimants so that there will be no cash losers as a direct result of the move to Universal Credit where circumstances remain the same.

Simplification of the current system

102. There are currently seven different components of benefits and tax credits associated with disability within the present system. These are paid at different rates, have different qualifying conditions and different purposes. The intent is to simplify the existing system, abolishing the array of multiple overlapping benefits and severe disability premiums**.**

103. Universal Credit will not replicate every aspect of the current provision but will consist of elements for disabled people based on limited capability for work, similar to existing arrangements for Employment and Support Allowance.

104. The Department knows that many disabled people want to work but feel the risk of losing their benefits is too great. The simplified structure of a system of tailored earnings disregards and single taper of Universal Credit will provide greater certainty and reward people for taking the step into employment. This reflects the Government's strong commitment to help more disabled people into work.

105. It is estimated that around 300,000 households will gain from the disability reforms and around 300,000 households will receive less, although benefit entitlement for a household may be affected by other parts of Universal Credit meaning an overall increase. Where current claimants receive less as part of Universal Credit, then transitional protection will be applied at the point of change, as long as circumstances have remained the same.

Disabled Child Addition

106. In Universal Credit, the costs associated with having a child will be met through the child element, with the extra costs associated with having a disabled child met through the disabled child addition to the child element.

107. There are to be two rates of disabled child additions as follows:

- — a disabled child addition for a child who receives any rate or component of DLA/PIP, apart from the highest rate of the care component; or
- — a severely disabled child addition for a child who either receives the highest rate of the care component of DLA/PIP or is registered blind.

108. In Universal Credit, disabled child payments will be aligned with those paid to disabled adults. Aligning the child and adult rates removes the cliff edge in the current system and will make it easier for young people who go to claim as disabled adults to have a planned transition into independence.

109. The lower rate for both adults and children will be set at around £117 per month and the upper rate for adults will increase in stages over time to around £333 per month. The rate for the severely disabled children will be set at around £333 per month when Universal Credit is introduced.

110. As a consequence, some families with a disabled child may be entitled to lower amounts under Universal Credit than they currently receive. This applies to the approximately 170,000 disabled children currently receiving the disabled child element, but not the severely disabled child element of Child Tax Credit.

111. However, some of these families may benefit overall from Universal Credit and there will be transitional protection at the point of change for existing claimants who see a lower entitlement under Universal Credit where their circumstances remain unchanged.

112. The Government has announced its commitment to undertake a review of the gateway which links disabled children to the Universal Credit disability additions. The exact details of the review are still to be determined. However, the Department will work with disabled people and disability organisations during the review to ensure that the most severely disabled children receive the support they need when the review is complete.

The Impact of the Changes on Local Authorities

113. Local Authorities are fully engaged at all levels in the design, development and implementation of Universal Credit. They are playing a full and active part in steering the programme and ensuring their respective organisations are represented across the Programme's key governance groups.

114. The programme has begun to engage all Local Authorities in respect of their detailed plans for Universal Credit related business change and is sharing thinking on migration proposals through Local Authority engagement forums. Plans are being put in place to ensure the migration schedule will be reviewed regularly to ensure it is flexible enough to adapt to changing national and local circumstances over what will be a lengthy period of transition

Role and Funding of Local Authorities

115. Local Authorities will have a continuing role in providing face to face support to claimants who need additional help from October 2013 and they will continue administering Housing Benefit until all claimants have migrated onto Universal Credit. As a result, the Local Authority role after 2013 is a complex and multi-faceted one, and the scope for new and innovative approached to delivery is considerable. So for Local Authorities overall, future funding requirements are difficult to define at this time.

116. A letter from the Department to Local Authorities has made it clear that they need to retain enough capacity to continue to manage the Housing Benefit caseload prior to full migration to Universal Credit. Local Authorities in England, Scotland and Wales will continue to receive subsidy from the Department in respect of their continuing but gradually diminishing Housing Benefit administration costs after 2013.

117. The subsidy allocation statements by the Department for Work and Pensions and the Department for Communities and Local Government this coming autumn will give details of funding to Local Authorities in England for supporting the transition process.

118. Local Authorities will continue to have a significant role in delivery of other welfare services after 2013 (Local Council Tax Support, reformed Social Fund, Discretionary Housing Payments and residual housing costs) and central funding arrangements will reflect this, including where Local Authorities have a role in delivery of Universal Credit.

119. The Department for Communities and Local Government will be responsible for subsidy allocations to English Local Authorities in respect of Local Council Tax Support administration costs but subsidy allocations in Scotland and Wales will be matters for the Scottish and Welsh Governments.

120. It is recognised that Local Authorities may incur one-off costs associated with decommissioning Housing Benefit services and work is underway to understand these impacts so that the Department can meet its obligations under New Burdens Doctrine. Work is also underway to identify the costs and additional burdens on Local Authorities of the Benefit Cap and funding allocations will reflect that.

Implications for Local Authority staff

121. The Department is working with Local Authorities to understand the full implications of the transfer of Housing Benefit administration to Universal Credit. The specific implications this has for LA staff cannot be fully understood until the design of the Universal Credit service is finalised, along with that of the wider Welfare Reform changes, including the localisation of Council Tax support and elements of the Social Fund.

122. It is still too early to say how many staff and what skills and experience will be required for Universal Credit. However on 21 March 2012 the Permanent Secretaries of the Department for Work and Pensions and the Department for Communities and Local Government wrote to Local Authority Chief Executives informing them that Local Authorities will be expected to provide face to face support for some Universal Credit claimants who will need more intensive help to access the online system.

123. It will be important to retain enough capacity to provide face to face support to claimants with complex needs when planning to reduce benefits services. Capacity will also be required to maintain the Housing Benefit caseload prior to full migration, deliver localised Council Tax Support and, in England, to take on some aspects of the current Discretionary Social Fund.

124. It is anticipated that longer-term, fewer staff will be required to deliver Universal Credit compared with legacy benefits so it is expected that staff in each of the current organisations will be affected. The impact on the number of Local Authority staff will also be affected by the design of the Council Tax Benefit replacement, the social fund reforms, the introduction of the Benefit Cap and decisions about the delivery model for Universal Credit.

Support for Universal Credit claimants

125. There will continue to be some claimants who cannot use digital online services. For those claimants with complex circumstances or with particular needs alternative access routes will be offered along with needs based support to access online services, this includes support in a face to face environment.

126. Claimants will be supported to use other channels as soon as it is practical to do so and providers of the Universal Credit face to face channel must be advocates for digital online service. Face to face services will be delivered by the Department for Work and Pensions and delivery partners, including Local Authorities and their wider supply chains to ensure the best of local capabilities are utilised.

127. Local Authorities already play an important part in supporting people who need additional help to access services, and will have an important role to play in the delivery of Universal Credit. The Department continues to work with Local Authorities to ensure the right level of support is available to claimants in their local area when they move onto Universal Credit.

128. A National Service Framework is in development to articulate the required services to deliver the face to face strategy. This framework will be used as a set of guidelines to help the Department work collaboratively with Local Authorities as the detail of local service provision is planned.

Support for claimants affected by the Benefit Cap

129. The Department for Work and Pensions and Local Authorities are working to provide support to claimants affected by the Benefit Cap. This includes employment support provided by Jobcentre Plus and support with housing from the Local Authorities. Claimants likely to be affected by the cap are being encouraged to accept employment support with a view to finding work and claiming Tax Credits, as those in receipt of Working Tax Credits are exempt from the Benefit Cap.

130. Guidance is being issued to staff and locally Jobcentre Plus and Local Authorities are being encouraged to work together to ensure joined-up support for claimants. An assurance process is being put in place to ensure this happens.

Local Authority-led pilots

131. The Local Authority led pilots will commence in Autumn 2012 and are expected to run until September 2013. The pilots will focus on delivering the face to face support some people may need to make claims for Universal Credit, including online support, help with budgeting and job searches, reducing fraud and error, and reducing homelessness. Local Authorities will play an important role in providing that support and these pilots create an opportunity for them to be at the forefront of shaping that role working with the Department and other partners.

132. The Department for Work and Pensions and the Local Authority associations for England, Scotland and Wales each jointly developed a prospectus defining the scope of 2013 focus Local Authority led pilots in their own nations. The prospectuses invited bids for pilots to explore key aspects of Universal Credit face to face delivery, including financial independence via a greater focus on work. These have generated and an announcement about the successful applicants in each nation is expected shortly.

133. The pilots will test and inform implications for Universal Credit design and rollout and support Local Authorities in their planning for Universal Credit delivery. The results will demonstrate progress and test the benefits, costs and outcomes of pilot activity. Further pilots covering LA long-term role in the delivery of Universal Credit will be announced next year and will examine post 2015 delivery models.

The Level of the Earnings Disregard

134. Universal Credit intends to top up earnings in a way that will make sure that there is a clear financial gain from working. It will provide a new single system of means-tested support for working-age people whether they are in or out of work. This will reduce the risks associated with moves into employment that exist in the current system.

135. In particular Universal Credit aims to ensure that people are encouraged to take jobs of only a few hours if that is all that is possible for them. To achieve this, members of a household will be allowed to earn

some money before it has any impact on the amount of Universal Credit received—this amount is called an earnings disregard. Different amounts will be disregarded from earnings in order to reflect the needs of different types of household and to support the aim that work pays.

136. In addition there will be a single taper rate at which benefit is reduced to take account of earnings over the relevant disregard level. This will allow people in work to see clearly how much support they can get while making sure that people considering a job will understand the advantages of work. This also reduces the risks of moves into employment that currently exist within the current system.

137. The rates of the earning disregard are still to be finalised but will be set in line with Government spending commitments.

Eligibility for and Operation of Passported Benefits

138. In May 2011 the Department for Work and Pensions commissioned the Social Security Advisory Committee (SSAC) to undertake an independent review of passported benefits and to provide advice on the possible approaches to the provision of these benefits when Universal Credit is introduced in 2013. The SSAC report and the Government response were published in March 2012.

139. In its response the Government noted that the SSAC's report into passported benefits supported the Government's view that many of these benefits provide vital support to people on low incomes and are valued highly by the individuals that receive them.

140. The introduction of Universal Credit represents not only a challenge for Departments and organisations with responsibility for passported benefits, but also a unique opportunity to consider more fundamental reform to simplify and streamline some passported benefits in future.

141. The Department for Work and Pensions continues to work closely with those Government Departments responsible for passported benefits as well as the Devolved Administrations and other providers as they develop their thinking around new eligibility criteria. Organisations will need to deliver the new criteria within the financial limits of individual schemes and to deliver well targeted, effective schemes with particular regard to the financial climate.

142. Work is under way to determine how this will work but essentially Universal Credit will provide the earnings level to government departments, as a proxy equivalent of current eligibility criteria, and it will be up to each passported benefit to decide their criteria based on their rules and budget.

143. Many passported benefits, and their associated administrative functions, have been in place for many years and in some cases, modernisation is long overdue. The Government recognises that, given the legislative and administrative change that would be required, radical reform of passported benefits may not be achievable for the initial stages of Universal Credit and the immediate priority is to introduce Universal Credit in a way that works smoothly with all passported benefits.

144. The provision of some passported benefits to all recipients of Universal Credit would almost treble the numbers currently eligible. Although the Government is sympathetic to the arguments for extending eligibility this is simply unaffordable in the current economic climate.

Impact Monitoring

145. To support effective delivery and a smooth transition, a framework to monitor and evaluate the impact of Universal Credit is being developed. This will encompass initial policy and process preparation through to the Pathfinder and will continue through to national roll-out of Universal Credit. Throughout, the focus will be on ensuring delivery supports the core aims of Universal Credit to: improve work incentives; smooth the transitions into and out of work; simplify the benefits system; reduce in-work poverty; reduce fraud and error.

146. To support initial preparation and transition through to Universal Credit a number of trials are providing learning to inform design and implementation plans. These include:

- running a series of live innovation trials to test out aspects of the claimant experience which expect to deliver under Universal Credit;
- delivering and evaluating a series of Housing Demonstration Projects to trial direct payment of Housing Benefit, in preparation for the introduction of Universal Credit; and
- developing and evaluating a suite of Local Authority–led pilots to both help improve service delivery and collaboration and to minimse some of the delivery risks to Universal Credit.

147. Central to the effective transition to Universal Credit is the Pathfinder activity that will run in Greater Manchester and Cheshire from April 2013. This will test the new benefit payment system with Local Authorities, employers and claimants in a live environment before Universal Credit is rolled out across the country. The Pathfinder will be used to test the end-to-end service and feedback received from claimants will be used to make final improvements before the national launch. From day one, the impact of key aspects of service delivery will be reviewed: new IT functionality, operational processes, partnership arrangements, and customer journeys through the different services (online, face to face and telephony). This will ensure that a

robust and reliable new service is in place for people to make a claim when Universal Credit goes live nationally.

148. To support a smooth national roll-out, a strategy has been developed for the systematic migration of benefit claimants over to Universal Credit. The migration schedule will be periodically reviewed as Universal Credit rolls out to reflect any emerging changes to national and local circumstances before migration is concluded.

149. The Department is firmly committed to evaluating and monitoring the impact and effects of Universal Credit. Universal Credit marks a fundamental change to the way in which people engage with the benefit system and access in-work financial support. Its design, implementation and delivery will span a number of years. Evaluation plans will reflect both the long timescale and complexity of the reform. That means developing a wide-ranging evaluation strategy which employs a number of different approaches over the lifetime of the policy: from ongoing monitoring, "live running reviews" of implementation and delivery through to longer-term analysis of the outcomes and impacts for different groups of claimants.

150. Hard evidence on the delivery and impact of Universal Credit will be key to making the most of the opportunity to reform the welfare system. A headline evaluation strategy for Universal Credit will be published in November.

17 August 2012

Supplementary written evidence submitted by the Department for Work and Pensions

Letter from Malcolm Whitehouse, Universal Credit Programme Director, DWP providing further information requested by the Committee at an informal briefing meeting held with DWP officials on 11 July 2012.

Publishing Draft Guidance

You asked about a timetable for publishing draft guidance. We are currently working on a timetable that will ensure we give stakeholders the opportunity to both feed into guidance and comment on any drafts. Early discussions have begun to seek stakeholder views on some specific topics areas, however wider engagement on content for the guidance is expected to take place in October.

Real Time Information (RTI)

Firstly, I am pleased to say that RTI is on track and the pilot is going very well.

The pilot started in April 2012 with 10 volunteer employers. It was expanded on schedule in May to a further 310 PAYE schemes. Following the success of the first pilot stage, HMRC expanded the pilot again and by the end of July, almost 1.8 million individual records were being reported in real time by 700 PAYE schemes.

So far, the quality of data in the pilot has been good, with the numbers of individual records matching to a National Insurance number exceeding expectations. Where a PAYE scheme pays using Bacs, HMRC uses an automated cross-referencing process to match the amounts shown on the RTI return with the amount actually paid. This process is producing high rates of matching.

HMRC is on track for around 1,300 schemes to be reporting PAYE in real time by the end of September with a further expansion in November. By March 2013, around 6 million individual records will be reported in real time by up to 250,000 PAYE schemes.

HMRC are seeing external confidence in the pilot and have therefore offered more large employers, payroll bureaux, new employers and software developers the opportunity to join the pilot or to expand existing involvement in advance of the launch date of April 2013. This approach will bring more individuals into RTI, and will help ensure that HMRC is well placed to support the early stages of Universal Credit.

The remaining employers and pension providers will come on board from April 2013. HMRC are on track to have all employers and pension providers reporting PAYE in real time by October 2013—in time for the introduction of Universal Credit.

Support for Mortgage Interest (SMI)

The Government set out its views on how Support for Mortgage Interest (SMI) should operate in the future. This was in a "Call for Evidence", which ran from 6 December 2011 to 27 February 2012. The Government is committed to continue providing Support for Mortgage Interest in future, to assist those owner-occupiers who qualify for this help to remain in their homes and avoid repossession as far as possible. Our strategic vision for Support for Mortgage Interest in the future is that it should provide short-term help to people at a time of personal crisis such as loss of employment or relationship breakdown, and incentivise work. This is because it is only through full-time work that mortgages can ultimately be re-paid.

Introducing a zero earnings rule for SMI broadly replicates how SMI currently operates in practice for most groups, and recognises the different characteristics and work incentives facing owner occupiers compared to other out of work claimants. Owner-occupiers who claim income-related benefits will previously have obtained and sustained mortgages and, usually, they will have done this while they are in full-time work. Most owner-occupiers should be aiming to move from short-term SMI into full time work to support their housing tenure or they should take other steps, such as selling their homes and downsizing, if they are unable to sustain their mortgages. Moreover should they attempt some part-time work the removal of SMI will in part be compensated by the operation of the full disregard.

In circumstances where people need long-term help with their mortgages because they are disabled or have retired with outstanding mortgage liabilities, the Government believes that it is not fair to pay SMI indefinitely without recouping some of the cost to taxpayers, through sharing in the asset gain to those individuals made possible by the support from the State. The Government believes that for new claims in the future, in exchange for supporting someone to live in their own home whilst they are on benefit for long periods, the best approach would be to put a charge on their properties to recoup the SMI paid. The Government is still considering this option.

You asked about the available statistical data regarding recipients of Support for Mortgage Interest (SMI) through the income-related benefits. The Department has since produced an ad hoc statistical publication, which presents the latest Income Support (IS) and Jobseeker's Allowance (JSA) SMI caseload and average weekly awards. (The Department does not have a corresponding data series for Employment Support Allowance SMI recipients.) The IS and JSA SMI caseload is also broken down to provide a regional profile and information on the age, gender, household composition and part-time employment status of SMI recipients. The part-time employment data shows that 6% of the IS and JSA SMI caseload are in part-time employment; this breaks down to 5% of the IS SMI caseload and 8% of the JSA SMI caseload.

The ad hoc statistical publication was published on 19 July on the Department's ad hoc analysis webpage: http://research.dwp.gov.uk/asd/index.php

Transitional Protection

Committee members also asked for more detail regarding those changes of circumstances which would trigger a move from a legacy benefit onto Universal Credit.

Claimants will migrate to Universal Credit in one of three ways. A "**new claim**", a "**natural migration**" or a "**managed migration**". A new claim occurs when a claimant has no previous legacy benefit entitlement. A natural migration occurs when an existing legacy benefit claimant experiences a change in circumstance that would mean they would have to make a new claim to a legacy benefit, which due to the introduction of UC is no longer available for new claims. A managed migration occurs when a claimant is required by DWP to move to UC at a given time.

The table below provides examples of the circumstances where a claimant would be required to make a new claim to UC; therefore the claimant would be a natural migration.

NATURAL MIGRATION SCENARIOS

Change of Circumstance	*Move to UC (A claim to benefit would need to be a claim to UC)*
Claimant is on Working Tax Credits (WTC) and loses their job	Yes
Claimant is on JSA, ESA or IS and starts work (unless permitted work)	Yes
Claimant is on JSA or WTC and becomes unable to work due to long-term sickness or disability	Yes
Household becomes responsible for a child for the first time	Yes
Lone Parent on IS re-partners	Yes
Couple with child under five splits up and one parent becomes a lone parent	Yes
Lone parent's child reaches the age of five	Yes
Claimant takes on full-time caring responsibilities for an adult	Yes
Claimant is no longer a carer	Yes
Claimant reaches state pension credit age	No (move to Pension Credit)
Claimant reaches state pension credit age however has a partner under state pension credit age	Yes
Child leaves full-time non-advanced education or training	No
Child leaves home	No
Child starts full-time work	No
Childcare costs increase/decrease	No
Couple on joint claim JSA splits up	Yes
Claimant on JSA, ESA, IS, or HB with a partner splits up	No (Should partner wish to claim they would have to claim UC)

Change of Circumstance	*Move to UC (A claim to benefit would need to be a claim to UC)*
Claimant on WTC with a partner splits up	Yes
Claimant on CTC with a partner splits up	Yes
Claimant on JSA/ESA/IS/HB re-partners	No (change of circs to the legacy benefit for the claimant who is in receipt of the benefit)
Claimant on WTC, CTC re-partners	Yes
Claimant claiming SMI moves to rented accommodation	Yes
Claimant moves home to a new Local Authority	Yes

Ending Transitional Protection scenarios

The Committee also asked for further information in relation to Transitional Protection (TP). For many claimants a move to Universal Credit will mean they see the same or higher amount of benefit than the current benefit system. We estimate 2.8 million households would receive a higher amount under Universal Credit than they do now. However, the move to a simpler system will change the level of entitlements for some households who are already in receipt of existing benefits. Where a claimant is manage moved to Universal Credit, their circumstances have remained the same and their Universal Credit award is lower than current benefits, we will provide TP as a cash top-up to make up the difference.

Over time the TP will be eroded as claimants' circumstances change but TP will continue to be provided until there is a significant change in circumstances. This approach ensures claimants have time to adjust to the move to Universal Credit.

Over the summer we have been considering further the significant circumstances that will end TP. This is as a result of work with stakeholders, to allow us to address their concerns about complexity, to ensure that claimants who are moved to Universal Credit with no changes in circumstance are adequately protected and that TP is simple to understand and administer, therefore reducing error. This work is still ongoing and we will keep the Committee informed once decisions are made.

However, I can provide the Committee with some examples of the types of circumstances that will end TP:

(1) a couple separating, or a single claimant becoming part of a couple—this is because the claimant's circumstances are no longer recognisable as the circumstances the TP calculation was based on;

(2) For three consecutive assessment periods an in-work claimant reduces their level of work to below the amount they are required to work as prescribed by their claimant commitment; and

(3) A claimant closes their UC claim—any future claim for UC will not reinstate the original TP.

As you know, Lord Freud recently held an informal briefing on the IT in development for UC, which some members were unable to attend. I agreed that I would be happy to hold a further session.

28 August 2012

Further supplementary evidence submitted by the Department for Work and Pensions

Letter from the Secretary of State for Work and Pensions to the Chair of the Committee.

First of all, I would like to reiterate my appreciation of the discussion on the progress of Universal Credit with you and the rest of the Committee on 17 September. Not only was it an important opportunity to discuss in greater detail some of the concerns that stakeholders and parliamentarians have at present, but also to outline the steps we are taking to ensure Universal Credit enables the majority to move smoothly into work while providing the support mechanisms for the minority who find that process more difficult.

I am writing to respond to the points we did not have time to discuss during the evidence session, and to confirm the announcements we made during the hearing, which are outlined below. Annex A then provides responses to your follow up questions. Annex B gives further information to support the oral evidence.

I would be happy to meet with you to discuss the implementation of Universal Credit in further detail, and I maintain my commitment to meet with the Committee following the laying of Regulations after the Autumn Statement.

Announcements made during the Select Committee Session

Start-up period for self employed claimants

Under Universal Credit, claimants will be expected to do all they reasonably can to establish an adequate level of earnings and to become independent of state support. However, we recognise the need for claimants who are setting up a business to be given time to establish themselves and build their business. Therefore where a claimant has been self-employed for less than 12 months, a start up period will be granted. This means that claimants will not be required to satisfy work-search or availability requirements, and the Minimum Income Floor will not be applied, thereby giving them time to concentrate on developing their business

Having listened to the views of stakeholders and the Social Security Advisory Committee (SSAC), I have decided to allow claimants one new start up period every five years rather than once in a claimant's lifetime as suggested in draft Regulations submitted to the Social Security Advisory Committee. This change reflects the nature of self employment; many entrepreneurs are not always successful with their first business, but the experience gained can help them build up a successful business in the future.

Supported accommodation in Universal Credit

We have listened to representations on this issue from refuges, Homeless Link, Mencap, National Housing Federation and others and have decided that help towards housing costs for those living in supported accommodation will be provided outside Universal Credit. This is to ensure that we continue to provide a flexible system to help meet the higher costs often associated with providing this type of accommodation.

To be clear, in this context we are referring to the group defined as "exempt" supported accommodation as currently set out in DWP legislation. This includes accommodation provided by a county council, housing association registered charity or voluntary organisation providing the claimant with care such as women's refuges.

In the short-term this help will be delivered broadly as now through local authorities under existing DWP legislation. People in supported accommodation will still be able to claim and receive Universal Credit. It is only the housing costs that will be provided separately. For the longer-term we are exploring the feasibility of a localised funding system. This is because local knowledge is essential to help identify this often diverse group, build effective relationships with providers and ensure that resources are targeted effectively at those who need it.

As we confirmed in our consultation we are not looking to cut costs. We will of course continue to question costs where they seem unreasonably high. But local knowledge plays a big part in that and helps to ensure that any scrutiny is well directed.

We believe that providing these costs outside Universal Credit will ease concerns over funding and payment regimes, particularly for refuges and hostels that meet the current definition. At the same time it will allow us flexibility in developing future provision.

We will be talking with key stakeholders as we develop our plans.

Financial products with additional budgeting support functions

As part of a wider piece of work exploring options to support claimants budget and manage their money, the Department is exploring the feasibility of making accounts with budgeting tools available to Universal Credit claimants. These budgeting tools could help make sure claimants' essential bills are covered—helping them to build-up their credit rating and break the cycle of financial exclusion. We are looking for a range of diverse providers to express an interest in developing these new financial products.

I am enclosing the press release[67] and Prior Information Notice[68] which will provide you with the further information you requested on our discussions with financial institutions on providing these accounts.

I trust that this information, as well as the detailed responses below, meets your requirements, but please let me know if you or the Committee have further questions. I am keen to maintain an open and constructive relationship between us in order to achieve our shared goal of ensuring that Universal Credit delivers the improvements to the benefit system that are so badly needed and so long overdue.

Annex A

WRITTEN FOLLOW-UP

During the hearing, Lord Freud and I agreed to provide further written evidence on four areas; Jobcentre Plus (JCP) support for Universal Credit claimants, Jam Jar Accounts, Job Seekers Allowance (JSA) Online pilot scheme and the local authority led pilots.

JCP support for Helping Universal Credit Claimants get Online

The number of staff that will be needed to support claimants making claims online in JCP offices will increase over time as Universal Credit is rolled out incrementally. For the Pathfinder the additional resource requirement over and above the assistance we already provide to people making a claim will of course be small. Based on projected volumes we estimate that around the equivalent of 200 staff (£7 million per annum)

[67] http://www.dwp.gov.uk/newsroom/press-releases/2012/sep-2012/dwp102–12.shml
[68] Http://ted.europa.eu/udl?uri=TED:NOTICE:296147–2012:TEXT:EN:HTML&src=0

by the end of the migration window—April 2013 to 2017, in both JCP offices and elsewhere. This is an area where of course we will be able to gain further experience during the course of the Pathfinder.

Internet Access Devices (IAD) are currently being installed in all Jobcentres to support claimants in accessing the internet. By the end of October 2012 there will be a total of 2186 IADs across all of our 718 Jobcentre offices. The costs of installing these access devices are therefore being met outside of the Universal Credit budget.

Jam Jar Accounts

While many claimants are able to manage their finances well, we recognise concerns that have been raised by stakeholders over claimants' ability to effectively manage their money once they transition to Universal Credit.

As mentioned in my covering letter, we are therefore looking to work with suppliers to explore the feasibility of new financial products to help claimants budget and manage their money.

I have attached the Prior Information Notice (PIN) which has been published in order to have a full discussion with industry on the parameters of any new budgeting product and the potential budget available.

JSA Online Pilot

It is important to note that Universal Credit is different from JSA online. It is a digital by default service with self service in every channel and has been co-designed with both staff and claimants. It is not based on legacy systems and is not a predominately telephone based service. Universal Credit has been designed to cope with a broader scope of circumstances that makes its easier to assess claimant circumstances and administer a single universal payment.

The JSA Online initiative however does give us insight into migrating services to an online channel. Over 1.46 million people have claimed JSA online (January 2012) and we are gaining valuable experience (eg claimant behaviour & feedback) from JSA online that is being fed into the planning for Universal Credit implementation.

The DWP Structural Reform Plan includes an action to "Increase the proportion of new claims to Jobseeker's Allowance submitted online to 80% by September 2013.

83% of the British population use the internet[69] but in May 2012 use of our JSA Online service was only 23.4%. Those claimants unable or ineligible to use JSA Online access our service through other channels.

To accelerate take-up of JSA Online we developed our JSA Online Take-Up Delivery plan focusing on conversion, influencing and improvement activities. Our first three trailblazer initiatives focused on:

— providing greater direction and encouragement to those who can claim online;
— incentivising the use of online channels instead of telephony.

As a result JSA Online take-up figures in August 2012 are 32.3%, up 8.9 percentage points from May. We have also received positive feedback from both claimants and staff and have incorporated learning into the next phase of IT improvements.

A further three trailblazer locations are now being rolled out. As requested by the Committee, the Jobcentres Plus Districts involved in the trailblazers are as follows:

Trailblazer 1	Durham and Tees Valley
Trailblazer 2	Essex
Trailblazer 3	Thames Valley
Trailblazer 4	Gloucester and West England
Trailblazer 5	Bedfordshire and Hertfordshire
Trailblazer 6	South East Wales (Eastern Valleys)

Local Authority Led Pilots

At this stage there is little further to say on the Local Authority led pilots in addition to the information that is in the press release. The scope and scale of Universal Credit face to face provision, and the way it will be funded, is still to be determined and these pilots create an opportunity for councils to be at the forefront of shaping that role working with DWP and other partners.

The pilots, which start this autumn and end by September 2013, will focus on delivering the face to face support people may need to make claims for Universal Credit.

They will look at:

— encouraging claimants to access online support independently;
— improving financial independence and managing money;
— delivering efficiencies and reducing fraud and error; and

[69] *Source:* ONS Q1 2012

— reducing homelessness.

I would be very happy to update the Committee on how the pilots are progressing and suggest around March next year will be the point at which we will have outcomes which will be of interest.

Additional Questions

The following information is in response to the six questions that we did not get to during the evidence session and I committed to answering in writing.

1. *What is the estimated total amount of tax credit debt which will be transferred to UC and what are the Government's plans for dealing with this debt?*

HMRC debt will not become Universal Credit debt. It will remain the responsibility of HMRC. The Social Security (Overpayment and Recovery) Regulations have however been put in place to allow HMRC to refer their benefit overpayments to the DWP if the claimant is in receipt of UC, so deductions can be made from their ongoing benefit entitlement. These powers will come into force in April 2013.

There will be restrictions in place, such as maximum amounts that can be taken from the claimants benefit, as other deductions may also be required. If insufficient UC is in payment for the deductions to be made, or the claimant ceases to be entitled to UC, the referrals will be returned to HMRC as they are responsible for that debt. They will make any decisions on whether to pursue the debt, and by what means.

2. *What incentives and support will be provided under UC to help both partners in a low-income household to return to work?*

We expect Universal Credit claimants to do all they reasonably can to establish an adequate level of earnings for their household. Universal Credit is paid to the household and therefore the earnings of the whole household will be taken into account both when calculating the total award of Universal Credit, and when determining work related requirements and activity.

Where claimants already have an adequate level of earnings, or are unable to meet any work related requirements because of particular circumstances and capability they will fall outside the Universal Credit labour market regime and into the No Work Related Requirements group. All other claimants will be subject to work related requirements intended to help them move into work, progress in work or prepare for work in the future.

In the case of joint claims the proposal is to combine the individual earnings threshold for both claimants to derive a joint earnings threshold. If the household earnings are above that threshold then both claimants, regardless of what they individually earn, will not be subject to work related requirements. If the household earnings are below that joint threshold then we will look at the earnings of each claimant individually to assess whether they earn above or below their individual threshold.

So to put it another way, in a situation where the joint earnings in a benefit unit are below the earnings threshold, we may concentrate work related requirements on the second/lower earner if the higher earner is earning more than their individual threshold, in order to help the second earner move into work, progress in work or prepare for work in the future.

3. *In what circumstances will a claimant qualify for the higher earnings disregard for disability? (UC draft Regulations, Explanatory Memorandum para 135)*

We won't have a higher disregard for disability specifically—the higher rates and lower rates will apply in respect of whether people have housing costs or not. The challenges faced by disabled people in reduced opportunities to work are reflected in the two rates of adult disability addition.

4. *Is the Government willing to give Local Authorities flexibility to apply the 10% reduction in council tax support in the way they believe would be fairest in their area rather than being obliged to protect certain groups, particularly pensioners?*

Local Authorities will have considerable freedom in deciding how a 10% reduction in council tax support is achieved.

The Government has set out during the passage of the Local Government Finance Bill its commitment to protecting pensioners under the new schemes.

5. *What are the payment arrangements for claimants whom the Department decides to make more frequent payments?*

We understand that many people on low incomes are used to budgeting on a fortnightly basis and may be concerned about moving to monthly payment. For the majority of people moving to monthly payments will be an important step in preparing them for the world of work. However, budgeting support will be available in the minority of cases in which this is not appropriate.

We do not want to label any claimant as financially incapable and for that reason payment exceptions will be on a time-limited basis. We will look to put in place the appropriate support to ensure claimant's circumstances can be reviewed, moving them over time to a point where they can manage the default Universal Credit payment arrangements. Identifying those who will require payment exceptions will come from a range of sources, for example third parties, support organisations and landlords.

A Universal Credit staff member will make the decision to allow a payment exception following a discussion with the claimant. They will consider the claimants' financial circumstances and any other factors which would indicate support is required. Guidance will be in place to support staff and we are working with stakeholder organisations to develop the content for this.

Support will be available for claimants when they move from legacy benefits to Universal Credit by providing the option of an advance two weeks into their first assessment period. The advance may be up to 50% of the expected Universal Credit monthly award and will be recovered in 12 equal monthly instalments from subsequent payments of Universal Credit. This approach is similar to advances of salary provided by many employers when an employee starts work on a monthly salary.

For those claimants who we identify as requiring more frequent payments once on Universal Credit, twice monthly payments of 50% of an award will be made seven days after the end of an assessment period and then about 15 days later. For example, John's assessment period runs 3rd to 2nd of each month, with his pay day on 9th. On 10th June it is agreed that John can receive a more frequent than monthly payment.

Because we want to make more frequent payments based on actual entitlement, rather than advancing 50% of the expected award, the twice monthly payment will take effect from John's next pay day. This avoids the claimant facing over or underpayments at the end of the assessment period if it transpires the advance was an incorrect amount.

So on the 9th July John receives 50% of his award for the period 3rd June to 2nd July. We then "release" the final 50% of his award fifteen days later, on 26th July. This process continues for as long as more frequent payment is required.

6. *Will claimants be able to access the Universal Credit system from their smart phone from when the system is implemented in October 2013?*

As Universal Credit will be online from 2013, claimants will be able to access it from the web browser on their smart phone. It is our intention to develop a Universal Credit app for smart phones; however it will not be in place for October 2013.

COMMITMENTS

I can provide the following updates on the commitments that were made during the hearing.

Communication of the treatment of gratuities

Universal Credit is a significant welfare reform and the Department will deliver a wide range of communication activity through the media, direct marketing, and where appropriate, advertising. We are working with HMRC, Local Authorities, other government departments, major employers, and third party organisations and support groups to ensure appropriate preparation for those who will receive Universal Credit or who might play a role in advising recipients.

Parity between the self-employed and employed

We made a commitment to ensure parity between the self-employed and employed people in the application of conditionality. We are currently looking into the examples provided by the Low Income Tax Reform Group and will be in touch with them in due course.

Rates and disregard levels

As I mentioned during the hearing I would be happy to meet with you again once the rates and levels have been set after the Autumn Statement.

MP's hotline

We welcomed your suggestion that there should be an MP's hotline to help address any casework issues that arise once UC is implemented. Officials are considering how to take this forward.

Trusted information providers

Universal Credit is being designed to support information transfer from trusted partners. For example, Universal Credit will obtain claimant's PAYE earnings details directly from HMRC, "Real Time Information" data transfer.

Universal Credit will in the future have provision for:

- — Trusted Information Providers (HMRC's tax agents/accountants, who with the claimant's consent provide self-employment earnings) to provide information for the administration of Universal Credit claims or award; and
- — Information verifiers who would verify or confirm information that claimants provide for the administration of their Universal Credit claim and/or award.

This process is being built into the design of Universal Credit along with support required by other intermediaries for those claimants who will need it.

Annex B

CLARIFICATIONS FROM 17 SEPTEMBER 2012 EVIDENCE SESSION

There are some aspects of the oral evidence given on 17 September that I would like to take this opportunity to clarify.

Advances to Support the Transition to Monthly Payments for Existing Claimants who Move onto Universal Credit

Universal Credit entitlement will be assessed and paid monthly, mimicking receipt of a salary (75% of working people are paid monthly in arrears).

Most social security benefits are paid fortnightly and in arrears, so when claimants transition from legacy benefits to Universal Credit, we need to provide a fair, simple and affordable means of ensuring that they do not experience a significant shortfall in cash flow in the first month.

We will achieve that by providing migrating claimants with the option of an advance of Universal Credit two weeks into their first Universal Credit assessment period. This is not the same as short-term advances which will replace interim payments and Social Fund Crisis Loan alignment payments, and budgeting advances which will replace Budgeting Loans.

The advance may be up to 50% of the expected Universal Credit monthly award, will be recovered in 12 equal monthly instalments from subsequent payments of Universal Credit.

This approach is similar to advances of salary provided by many employers when an employee starts work on a monthly salary.

The advance in not a loan but a rescheduling of payment in the first month. The claimant receives the same overall amount of Universal Credit over the first year, and no interest is charged.

To guard against hardship, we will never deduct an amount more than the equivalent of 40% of their Universal Credit standard allowance.

Telephony Service

As in the current system, the Department will use the 0800 free phone number for calls to claim benefit or request emergency payments. It will use the 0845 telephone numbers when claimants call for other reasons as these are calls that typically take less time to resolve. We are aware of the financial difficulties this may cause and so, when someone asks us or raises concern over the cost of a call, we will offer to call them back. The Department also provides "Customer Access Phones" in a large number of its Jobcentre Plus offices, where people can make benefit enquiries or pursue job applications. They do not have to pay when using these facilities.

Alignment of Reporting Requirements for Self-employment Earnings with HMRC

We have been clear from the outset that where possible we will align the income reporting for the self-employed with the new cash income reporting system that HMRC are developing to simplify tax. We have not wavered from that commitment.

At the time of drafting our self-employment reporting regulations, HMRC were consulting on their cash income proposal. Now that their consultation has ended my Department is working closely with HMRC, and officials have regular meetings to ensure we are lined up as the tax proposals and Universal Credit Regulations are refined.

Cross Checking of Earnings

Real Time Information (RTI) will be sent by employers for all employees and pensioners covered by PAYE. A cross reference to the payment will be provided for those cases where the payer has a personal BACs service user number (ie they aren't a bank or a bureau). The Department will use the RTI received regardless of source of payment but the payment cross reference will be used as part of a more general risk based approach to Universal Credit security. There won't be an automatic separate cross check of non-verified data.

Review of Disabled Child Additions

Lord Freud committed to undertaking a review of the gateway which passports children to the disability additions under Universal Credit. This work is not expected to begin until 2015 by which time we should have gathered sufficient evidence from work the Department for Education is undertaking to explore moving towards a single assessment for a child's social care, health and special education needs as well as learning from the introduction of PIP.

Support for Mortgage Interest

Lord Freud and I discussed the zero earnings rule with you at the hearing and addressed your concerns that this will reduce work incentives for those working part-time. I would like to clarify that the example given where 10 hours in work at National Minimum Wage will mean the claimant matches the existing system is based on the circumstances of a lone parent. We used lone parents as an example as we know the effect of these changes on this group is of particular concern to stakeholders.

Temporary Accommodation

I will be producing a policy briefing note in due course to clarify the Department's position on treatment of Temporary Accommodation in Universal Credit.

5 October 2012

Written evidence submitted by the Local Government Association (LGA)

The Local Government Association (LGA)

The LGA is the national voice of local government and our mission is to support, promote and improve councils.

We work with councils to achieve our shared vision for local government by focusing our efforts where we can have real impact, being bold and ambitious, and supporting councils to make a difference, deliver and be trusted.

This response has been agreed by the LGA's cross party Finance Task and Finish Group which is responsible for local government finance matters at the LGA.

Introduction

1. The LGA welcomes this opportunity to offer written evidence to the Department of Work and Pensions Select Committee inquiry into progress on the implementation of Universal Credit (UC).

2. The LGA supports the principles behind UC of simplifying the benefits system and improving work incentives.

3. It is essential, in helping to achieve successful implementation, that central government and local government work closely on the issues which we detail in our submission.

Summary

4. The Local Government Association supports the principles behind UC to simplify the benefits system and improve work incentives. However, the LGA has concerns, that are backed up by early observations by councils, that fall into three categories of challenge:

- 4.1 Time/timeline: Achieving a predominantly online service, achieving cultural change, putting effective IT in place and enacting the required regulations being enacted all present challenges to councils.
- 4.2 Costs: Rent collection, staff, systems, overheads, contractual and transitional costs, against a backdrop of 10% saving on Council Tax benefit councils are expected to deliver.
- 4.3 Social issues: IT literacy and digital access, face-to-face support, direct payments to one person in household posing risks impacting on equality and financial abuse and to rent collection.

Evidence

The proposed arrangements for claims and payments and the provision of support and advice for claimants, including:

The presumption of a predominantly online, self-service claims process

5. Councils welcome the opportunity to migrate customers to online systems due to cost benefits and ease of access for customers. However, the customer base for Universal Credit is the group amongst which internet

access is at its lowest. The varied availability of high speed broadband connections, particularly in social housing and rural areas, means that internet access can be unreliable.

6. Applications for welfare support have a degree of complexity which will exclude many from carrying them out online due to basic literacy and language issues. Councils are concerned that, although they will migrate a significant number of customers to online systems, those with the most complex needs will continue to make a direct demand on their resources.

7. Assisted completion of online forms will continue to be a service councils offer via face-to-face appointments, over the phone and through the provision of onsite IT facilities. Work by Lewisham Council has shown that only 1% of tenants wanted to make direct contact online due to concerns about making mistakes when completing online forms, and the impact that could have on household finances. There is no clarity as to how councils can fund this provision in the future. It is also unclear whether the DWP will be offering any direct support to customers.

Monthly payment to one person in the household

8. There is general agreement that monthly payments require a level of budgeting skills which are not prevalent across the Universal Credit customer group. Claimants who have been out of work for a long period of time often lack the budgeting skills to manage their money in the required manner. Councils have recognised this issue and many are preparing to provide assistance to pass on these skills to their customers.

9. However, further thought needs to be given to the financial pressures which will occur at the first transition to the payment of Universal Credit. Any sort of delay could make claimants susceptible to taking out a Pay Day Loan. There will be ongoing issues for customers around balancing UC payments with the need to pay rent especially at Christmas and the beginning of the school term.

10. The intention to pay Housing Benefit direct to tenants through Universal Credit will introduce a significant new burden to Councils and Social Housing landlords. Currently this benefit is automatically applied to rent accounts, which is an efficient and well understood system. Moving to direct payment to tenants brings real risks of increased rent arrears leading to a rise in rent collection costs and fluctuations in housing providers' cash flow and overall financial position. This is a specific issue for stock owning Local Authorities.

11. The key concern around single payments to a household is the possible impact on equality and financial abuse. There is a concern that this will disproportionately affect women and children.

Arrangements for providing telephone and face-to-face support and independent advice for claimants who need it

12. Local government already provides a significant level of advice to claimants over the phone and face-to-face. Although internet based options are on offer, experience has shown that people in need of this level of support prefer to deal with someone face to face. In preparation for Universal Credit most councils are developing a "triage" model allowing them to offer a broader level of assistance around housing, debt advice or employment in conjunction with their partners.

13. Most councils already offer One-Stop shops or combined services where they have co-located partner organisations such as Jobcentre Plus, Social Landlords and Credit Unions. This work is being expanded across local government in preparation for Universal Credit and will be highlighted through the work of the Universal Credit Local authority pilots. However, this type of high level customer care is resource intensive and will come under continued pressure as council budgets are tightened.

Progress with developing the necessary IT systems to administer Universal Credit, including the Real-Time Information system for PAYE being developed by HM Revenue & Customs

14. It is very clear that full and timely exchange of accurate data between councils and Jobcentre Plus is going to be a key requirement for the implementation of Universal Credit, the Benefit Cap, localised support for council tax and the social sector size criteria regulations. It is understood that DWP intend to use the ATLAS system as the vehicle for this exchange.

15. Councils, however have some concerns over ATLAS, particularly whether it will it have the capacity and resilience to support the administration of the Benefit Cap. Some councils have reported difficulties coping with an overwhelming volume of information produced by the system. This has required manual intervention by council staff and lead, in some cases, to delays in payments.

16. Councils have real concerns both with the ability of IT suppliers to update their IT systems in time to enable the administration of new localised Council Tax support schemes and with the potential associated costs. With 326 billing authorities in England all potentially with different schemes and most vying for the simultaneous attention of the three main IT suppliers, there is a real risk that councils will not have fully operational IT systems ready to deliver localised support for financial year 2013–14. There is also a real risk that the central government Universal Credit IT systems will not be ready on time. We are concerned that key assumptions enabling an "Agile" systems development approach to meet the Government's ambitious timescale for Universal Credit are not grounded in reality and that if plans are not revisited now, additional costs will be

incurred not just by central government, but also by councils which will incur the increased costs in dealing with and supporting UC claimants. In addition to this, the commencement of UC payments halfway through the 2013–14 financial year will further increase complexity for councils at a time when central government is cutting Local Authority benefits administration grants.

The impact of the changes on Local Authorities, including budgets, staff and support for claimants. The changes include those to Housing Benefit; the introduction of the benefit cap; and localisation of Council Tax support

17. **Impact on Staff**: The full impact on councils will depend on the role councils are to have in the face to face delivery of UC and on whether council staff are going to be eligible for protected employment rights (under the TUPE Regulations) enabling them to be transferred into Jobcentre Plus to join the DWP UC delivery teams. DWP have written to council chief executives expressing the view that there will be no TUPE rights for council staff. The LGA is questioning this. If councils are only going to have a limited role in the delivery of UC and there are to be no TUPE rights, councils will face a very significant and costly redundancy and pension burden. Additionally the central government teams processing Universal Credit claims will have no staff with expertise in Housing Benefit, many aspects of which will be carried forward into Universal Credit.

18. **Impact on overheads**: In small councils the administration of revenues and benefits represents a significant sector of council business. If councils have no or only a limited role in the delivery of UC, these councils will face a major reduction in revenue, with overheads having to be shared across a smaller base leading to a marked increase in unit costs. The ability of some councils to stand alone may be called into question. This uncertainty is compounding the difficulty of the planning for the future for all councils.

19. **Benefit cap:** With the Benefit Cap being delivered in the first instance by councils through Housing Benefit, councils and other social housing providers are concerned that they will see an increase in rent arrears from capped households with commensurate increases in the costs of rent collection. This is likely to be exacerbated in the social rented sector when combined with direct payment of UC. London Councils are particularly concerned that the Benefit Cap combined with reforms to the Local Housing Allowance (LHA) will lead to demographic migration from high cost areas of London and lead to a breakdown of London's mixed communities and a concentration of poorer families in smaller parts of London.

20. **Localised support for Council Tax**: Councils have concerns over the Parliamentary timetable for approving regulations. Some have questioned whether any consultation they undertake before the regulations have been enacted will meet legal requirements, although they have been assured by Department for Communities and Local Government (DCLG) that it will. Others worry that the schemes they are consulting on, based on draft regulations, could prove invalid when final regulations are approved in the autumn once the Local Government Finance Bill has received royal assent.

21. All councils are concerned at the compressed timescale for devising, consulting and delivering plans by 31 January 2013. They also have concerns over the impact on the working poor of the statutory protection of pensioners in localised schemes and the 10% saving on Council Tax Benefit they are expected to deliver even when combined with other adjustments to council tax discounts they could make. Councils would like to see greater freedom in the Local Government Finance Bill over existing council tax discounts where the law currently allows no local discretion. The 25% discount for single person occupiers is the most significant example. With discounts such as this protected by legislation, a 10% cut across the entire population of CTB recipients, actually becomes a much greater burden on the smaller cohort that councils can actually make the saving from, and these people are, in the main, the working poor. Precisely the people that we should not be dis-incentivising to stay in work.

22. **Future funding**: Councils are being hampered in their planning for the delivery of the reforms by a lack of clarity over future funding.

23. Although councils know that there will be a 10% cut in funding for their localised support schemes, they are worried that, because the 10% saving is to be based on forecast rather than current Council Tax Benefit (CTB) expenditure, the reduction will in effect be more. DWP is currently forecasting a downward trend in the need for support over the next year, a conclusion that is totally out of line with many councils' current experience of significant growth in numbers of Council Tax Benefit claimants.

24. Councils with a high proportion of pensioners in their CTB cohort are concerned that their localised support grant allocation won't recognise this, thus leaving the working poor to take a bigger share of the burden.

25. It is the local government view that the early impact of the migration from Housing Benefit (HB) to UC will be minimal, but that managing the implementation of the Benefit Cap and measures around under occupancy in the social sector could prove resource intensive. In order to conduct their budget planning, councils will need some certainty on the HB allocation they will receive for 2013–14 and 2014–15 and would like a very early decision to maintain HB admin subsidy levels at the current level until at least March 2015. This is on the basis that councils will face increased levels of demand for support from UC claimants in the short to medium-term which will significantly outweigh any savings from a reduced number of HB claims.

26. **Housing**: Councils are seeking more clarity on the UC model and how varying types of housing costs—particularly those in respect of supported and exempt and temporary accommodation—are to be treated. There is concern that the housing element of UC will only apply to the following:

26.1 charges for services necessary to maintain the fabric of the dwelling;

26.2 charges for cleaning of communal areas; and

26.3 charges for cleaning of exterior windows where neither the claimant nor any member of his extended benefit unit is able to clean them.

27. This is a significantly narrower description than is currently the case in the Housing Benefit regulations. The LGA shares the concern of housing providers that the draft UC regulations take insufficient account of the implications of its proposed change of approach to service eligibility; that the list of eligible services is defined in very general terms; and that the proposals do not adequately reflect the range of practice in the sector about services and charging. We understand that discussions with DWP are continuing.

Local Housing Allowance (LHA) reforms

28. While the picture across the country appears to be mixed, London Councils in particular is concerned that the rent reductions the Government hoped would occur, once both increases in and size of LHA awards were restricted, is not materialising due to a high demand for private rented properties and overall lack of churn. With increases in LHA to be restricted to no more than CPI there is a real risk that this situation will get worse making more and more parts of London and other major cities unaffordable for poorer families.

29. In areas where this happens, it could be expected that some families seeking to absorb the impact of the Benefit Cap and restrictions on LHA will move to accommodation that is legally overcrowded with all the associated negative educational and health outcomes. London Councils is also concerned that with a lack of availability of affordable temporary accommodation in London, families will need to be housed in cheaper areas away from the city.

30. Where migration driven by the welfare reforms takes place there are real cost implications of service delivery for councils receiving the migrants with no funding in place to address it. Failure to respond quickly and provide additional resources for countering the additional service pressures will have repercussions for service delivery particularly in London.

31. Families impacted by the Benefit Cap and LHA reforms will sometimes be those also being supported through the Troubled Families and Work programmes. For these programmes to be successful, measures will need to be put in place to ensure that participants can be tracked effectively and transferred between providers. If these measures are not put in place there will be implications for payment by result providers including councils.

32. **Social housing size criteria**: Combining the delivery of the social housing size criteria regulations with implementation of the Benefit Cap represents a significant challenge for councils. It is by no means clear that social housing providers have a clear picture of occupancy of their properties or indeed a method of tracking occupancy as family situations change.

33. For some councils implementing the size criteria will be hampered by an insufficient supply of the right size of accommodation. Theoretically, where there is insufficient social housing of the right size for people to move into, it should be possible to move into the private sector. But this assumes that:

33.1.1 there is sufficient affordable capacity in the private sector;

33.1.2 there are sufficient numbers of families in private sector housing to move into empty social housing; and

33.1.3 RSLs are not going to be left with larger empty properties they can't let, because of low demand.

34. There are also costs associated with increased levels of mobility in the social housing sector both to the tenant and to councils and housing providers.

35. **New burdens**: The costs associated with the benefit reform, including staff, systems, contractual and transition costs, should be fully met by Government under the new burdens doctrine, in order to prevent those costs becoming an additional pressure on Council Tax. The LGA and advisers have been involved in an assessment but this has not yet been completed and councils retain some level of concern about the conclusions that the Government may reach. Assessing new burdens will need to be an ongoing process covering the full period of UC implementation to ensure that councils are fully compensated for any hidden or unforeseen costs arising from the changes.

Eligibility for and operation of passported benefits

36. Councils are still awaiting information on government intentions for passported benefits.

Impact monitoring: what the DWP's priorities should be for monitoring the impact of the transition to Universal Credit?

37. The LGA considers that DWP priorities for impact monitoring should be:

- Tracking demographic movement.
- Speed of processing claims and tracking backlogs.
- Accuracy of claims processing (right first time) and fraud levels.
- Costs to councils.
- Online v face to face assisted transactions (bearing in mind that some on line transactions could have been with council assisted face-to-face transactions).
- Impact of direct payments on claimants, councils and housing providers (including rent arrears, evictions, homelessness).
- Increase in number of people who can manage money on a monthly cycle and have access to bank accounts.
- Universal Credit take up levels.
- The number of enquiries and contacts, through DWP, Councils & Social Landlords in relation to Welfare Reform and Universal Credit.
- Work related statistics (Is the change impacting cultural behaviour and welfare dependency as envisaged?)

22 August 2012

Written evidence submitted by UNISON

Summary

1. UNISON welcomes the opportunity to make this submission to the Work and Pensions Select Committee. UNISON is the largest public service trade union in the United Kingdom. It represents thousands of people who undertake housing and Council Tax Benefits administration for Local Authorities and their contractors.

2. The introduction of Universal Credit represents the biggest single change to the system of benefits and tax credits since 1945, affecting some 6 million households and 19 million people. In seeking evidence the Committee has specifically requested comments on:

> *The proposed arrangements for claims and payments and the provision of support and advice for claimants, including the presumption of a predominantly online, self-service claims process; monthly payment to one person in the household; and arrangements for providing telephone and face-to-face support and independent advice for claimants who need it.*

3. This submission specifically addresses the majority of those issues and argues that the Universal Credit service delivery model requires *at the outset* a people based *local service element as an integral part of the model*. It asserts that the skills expertise and experience of the 20,000 staff currently employed by local authorities or their contractors delivering Housing and Council Tax benefits *should form an integral part of that service delivery model* for the successful introduction of Universal Credit and that without that integration the service delivery model risks failing to reach the standards of service quality the public have the right to expect.

4. Without an integrated proactive approach at the outset that seeks to utilise their skills and experience and, equally significantly their local knowledge, the public investment that has been made in these staff may be lost.

Detailed Evidence

Service Design

5. The design of the service delivery model for Universal Credit incorporates the assumption that it will be "predominantly online".

> *"From the outset we have designed Universal Credit as an online service. We expect people to claim Universal Credit online and then to track their claim and report changes just as they do with online banking."* (Lord Freud; National Digital Conference; 30 May 2012)

6. But as DWP's own recently published research demonstrates, online technology is not in everyday usage by the *majority* of claimants.

> *"All main claimants were asked about their use of technology in their everyday life… Less than half of respondents had used internet or online shopping, online banking, or had found out about government services online. Just 14% had put in a new claim for a benefit online."* (Work and the Welfare System: A survey of benefits and Tax Credits recipients; Ipsos Mori for DWP July 2012)

7. The DirectGov website advises people to allow at least 40 minutes when completing the online JSA application form.

8. More importantly, earlier research for DWP (Research Report 734 Developing an online service: Customer research into the benefits and likely uptake of Automated Service Delivery (Jobseeker's Allowance); Department for Work and Pensions; May 2011) found that Income Support and Employment Support Allowance/Incapacity Benefit claimants were even less likely to use the internet and raised questions about the implications of rolling out automated service delivery beyond JSA claimants.

> *Among benefit customers, similar proportions of customers of the three different benefit groups said that they had access to the internet at home (67% of Jobseeker's Allowance (JSA) customers, 62% of Income support (IS) customers and 62% of Employment and Support Allowance (ESA)/Incapacity Benefit (IB) customers). Despite this, IS and ESA/IB customers tended to be less frequent users of the internet than JSA customers: 39% of IS customers and 31% of ESA/IB customers used the internet on a daily basis compared with 52% of JSA customers.*
>
> *The higher levels of internet confidence among JSA customers suggest that this group represent the most suitable target audience for the launch of ASD. However, the significantly lower levels of internet confidence among IS and ESA/IB customers may have implications for the successful roll out of ASD to a wider audience in future.*
>
> *Levels of uptake of Government services were considerably lower among all customer groups. For example, only 39% of JSA customers were open to claiming benefits online, although they were more likely to be open to doing so than IS customers (28%) or ESA/IB customers (27%).*
>
> Source: Research Report 734 Developing an online service: Customer research into the benefits and likely uptake of Automated Service Delivery (Jobseeker's Allowance); Department for Work and Pensions; May 2011)

9. DWP now has evidence from its own experience of moving Jobseekers Allowance claimants online. DWP published its draft Structural Reform Plan in July 2010. The plan initially included Action 6.1 i) "Move Jobseekers Allowance and State *Pension to online application as our preferred delivery model"*.

10. The Jobcentre Plus Annual Report and Accounts 2010–11 identifies the inclusion of the 80% target.

> Action 6.1 vi) *Increase the proportion of Jobseekers Allowance claims made online to 80%*

11. The date for achieving 80% of claims made on line was set as September 2013.

12. The Public Accounts Committee raised concerns about whether this was achievable in its' Forty Seventh Report published on 5 September 2011.

> *2. The running cost reductions depend to a significant extent on optimistic assumptions that 80% of Jobcentre Plus customers will deal with their claims online. Currently only 17% deal with their claims online and 31% of the poorest in society never use IT. The Department could not explain the basis of the 80% target at the hearing. Subsequent written evidence from the Department stated that 86% of JSA customers already use the internet and 67% have access in their homes, while just over 40% are "ready, willing and able" to use online JSA services. The Department should test the realism of the plans by Jobcentre Plus to process 80% of Jobseekers Allowance claims online and prepare a detailed plan for what it can achieve. It must also spell out alternative actions if the assumed savings from customers using services online are not achieved.*[70]

13. The Committee's concerns appear to be well founded as the DWP Annual Report reveals that progress has been limited with an increase of just 2.6 percentage points between the publication of the Public Accounts Committee Report and the DWP Annual Report and Accounts 2011–12.

> *The proportion of Jobseeker's Allowance applications submitted online increased from 10.4% in March 2011 to 19.6% in March 2012.*[71]

14. The DWP Business Plan text has since been amended to read *"Increase the proportion of new claims to Jobseeker's Allowance submitted online to 80%"* and on 25 May 2012 DWP began three "trailblazers" in an attempt to increase the percentage of applications submitted online.

- The first involves the claimant being offered assistance and access to the internet to be able to make their claim, they then can return to the telephony route if possible
- The second pilots a deliberate additional built-in-time for callers opting the telephony channel to make their claim to JSA, the caller will hear an automated message to advise them about the online option whilst they wait.
- The third pilots an incentivized approach where the caller is informed that they will receive their benefit claim more quickly if they claim online, claims made online will be prioritised above claims made through any other route.

15. This limited progress towards the 80% target reflects the scale of the task involved.

[70] Public Accounts Committee; Forty Seventh Report Session 2010–12; 5 September 2011
[71] Department for Work and Pensions Annual Report and Accounts 2011–12

Research Report 734 Developing an online service: Customer research into the benefits and likely uptake of Automated Service Delivery (Jobseeker's Allowance); Department for Work and Pensions; May 2011 clearly identified the scale of issues

Among JSA customers:

— 62% were already searching for jobs online.

— 29% were using online banking, with online banking perhaps representing a transactional service similar to ASD. Similarly low proportions of IS (25%) and ESA/IB customers (20%) were already using online banking. This is much lower than working non-customers, among whom 58% used online banking.

16. The research for DWP not only identified lower usage of transactional services it highlighted the barriers to increased uptake.

3.1.3 *Barriers to uptake*

Customers also identified a number of barriers to uptake:

— Having access to the internet was highlighted as a big barrier for a significant proportion of customers. Even those who accessed the internet for other purposes outside the home (for example, browsing, social networking, looking for jobs) were unsure about whether they would have access that was deemed private and secure enough to undertake transactions with Jobcentre Plus online.

— Even if they had access, many customers felt that they lacked the technical ability and confidence to sign up to and use ASD online. For something as important as claiming benefits, many felt that they would much prefer to deal with a human being face-to-face rather than use a computer.

— Inertia and fear of change meant that customers felt they might not migrate to ASD online, even if it did offer significant benefits. There was felt to be risk associated with trying and adopting a new system. Many customer are struggling to make ends meet, and didn't want to risk jeopardising their benefit payments by migrating to a new system.

— There was a fear that online services are not safe and secure. Jobcentre Plus customers, particularly those less confident in using the internet, were worried that interacting online would not be safe. In particular, customers were worried about inputting too much personal and financial information into an online system, and that they would end up being victim to online fraud. In particular, there was a fear about the security of having customers' National Insurance (NI) details on an online system.

— Finally, customers were concerned that the system would not function well. Stories about the government's track record in implementing and running large IT projects and managing personal data caused doubt. As a result, many felt that they would wait and see how good the system was before using it.

Household Assessment

17. From the outset Universal Credit has been a household assessment. As such the system will need to collect information from all members of the household before a determination can be made. At the point where a new application is made the determination will draw into Universal Credit all other members of the household. This adds another dimension to the determination. What will happen when one member of the household is employed by a small employer that has not completed their HMRC Real Time Information return? With a growing number of households with adult children living at home coupled with the complexities of household formation in recent decades it is not clear how this process will operate.

Contact Centres

18. For people who are not able or willing to apply on line, the Government is planning to use "Contact Centres". It is not yet clear whether people will have to get through the Identity Assurance process before accessing the call centre or whether the numbers people will have to ring will be free. Calls from a landline to 0845 numbers are expensive and from mobiles they can be very expensive as you start paying from the moment you join the queue.

19. It appears DWP is planning a very different call centre experience.

> *"The starting point, I said to our telephony collaboration teams based in Newcastle, was just think of a contact centre, but it has got no people in it and think of an operating model that has got no back office, and start from there,"* said Steve Dover (Director of Major Programmes at DWP). There will be a contact centre with staff as well and voice recognition technology, but the public will be "nudged back" to the web channel, he added.

Local Authorities, e-benefits and online

20. Local Authorities have introduced online application processes for Housing and Council Tax Benefit processes and now have substantial experience in this field. Document image processing and the completion of application forms online have eliminated significant paper based approaches. However claimants are still required to provide original documentation before a claim is put in payment.

21. Council and housing association landlords will often complete the online form with the tenant and scan original documentation, as part of the administration of a new tenancy process and electronically submit the claim and accompanying evidence. Housing Benefit staff will then assess the claim and identify the further documents required and further questions raised by the application.

22. The *local human element* of this process is the critical factor to ensuring the quality of service delivery.

23. Another important aspect of the local service is the service provided to landlords.

Identity Assurance and Verification

24. Another potential difficulty for claimants is the Identity Assurance. It appears that a claimant will not be able to submit a claim unless it is able to satisfy a private company that is providing identity assurance services for DWP.

25. As UNISON understands matters, the Government intends to appoint a number of private sector Identity Assurance providers whose function will be to verify that the person making the claim is who they say they are.

26. The individual claimant will then be able to choose which Identity Assurance provider verifies their identity. Verification will be performed in an appropriate channel (web, telephone or face to face).

> *"The provider will verify that sufficient evidence exists to verify that a person presenting on a given channel is the owner of the claimed identity"*

27. It appears that that provider will also be responsible for "Credential management".

> *"The provider will securely manage the credential lifecycle (eg user name, password, hard or soft tokens, grids, voice samples, memorable information, one time passwords etc), from issue to decommission, including all aspects of management of the customer, which will include for example credential loss/recovery/reissue"*

28. UNISON understands that the systems of Identity Assurance that are being explored do not rely on the presentation of original documentation but instead rely on risk assessment methodologies.

29. The Identity Assurance provider contracts will not be let until September 2012.

DOCUMENTARY EVIDENCE

30. As at 19 April 2012 DWP had still not determined how claimants would be required to provide documentary evidence:

> ***Stephen Timms:*** *To ask the Secretary of State for Work and Pensions by what means claimants' documentary evidence in support of universal credit applications will be collected. [103934]*
>
> ***Chris Grayling:*** *My Department is currently considering a variety of options for documentary evidence to support a universal credit application. Full details will be set out in the regulations, which will be debated in the House.*
>
> ***Hansard (19 Apr 2012: Column 468W)***

Pilots, Pathfinders and the October 2013 Rollout

31. Initially the Department for Work and Pensions made it clear that it saw no long-term role for local authority staff in the service delivery model for Universal Credit. This is clearly shown in this slide taken from an early DWP presentation.

Universal Credit and housing (3)

The way things fit together is becoming clearer

Local authorities will:

- continue to deliver Housing Benefit for up to 7 years
- have a critical role in developing the Universal Credit programme
- be responsible for Council Tax and local welfare support
- be critical to managing transition
- have a role in supporting claimants
- be critical in tackling issues

Local authorities may:

- have a role in other welfare provision
- provide some face-to-face delivery of Universal Credit
- retain some residual housing cost functions

DWP Department for Work and Pensions

32. Some observers suspect that this is because the long-term objective is that the delivery of Universal Credit service will be privatised and that the current phase is therefore designed to prepare the service delivery model, iron out difficulties and minimise risk. The unilateral privatisation By DWP of "JCP online" to Capita from September 2012 is seen as a precursor of future plans.

33. The passage of the Welfare Reform Bill elicited "warm words" from Government Ministers about the experience and expertise of Local Authority housing benefit staff and the importance of their role in "supporting" the introduction of Universal Credit. But the underlying message has always been "you can help us introduce it but you have no long-term future".

34. The following Ministerial answers illustrate that message:

> **Steve Webb MP (WA 18 October 2011)** "Universal Credit is a national benefit. It will be delivered largely through an online service, with its core administration most efficiently run by a centralised system. As DWP start to build the organisation to deliver Universal Credit, and we have yet to settle on the precise detail, and select the right people with the right capability it is likely some of those skills will exist within Local Authorities. We will therefore always look to include Local Authority staff in our thinking."

> **Chris Grayling:** (WA 5 December 2011) We are engaged with Local Authority staff at all levels. Local Authorities are a key partner and we need to utilise their expertise, skills and success in order to design a modern welfare system that makes the most of the best of national and local services and delivers them from the most appropriate place.

> **Chris Grayling:** (WA 19 January 2012) The Welfare Reform White Paper sets out that the Department for Work and Pensions will be responsible for organising the delivery of Universal Credit. It also states that we will continue to pay Housing Benefit to working age customers until we can migrate them successfully on to Universal Credit, currently expected to be by October 2017. We have yet to settle on the precise details of how the transition will work, and the effects on housing benefits staff. However, this orderly transition will ensure that we have people with relevant skills and experience to support claimants both in work and out of work, as they migrate to the new credit.

> **Iain Duncan Smith (OA 23 January 2012):** The reason is that we will be talking full-time, all the time, to Local Authorities. We receive a huge amount of information from them, so we are not talking about stand-alone assessments being made; rather, the functioning of Universal Credit requires that, at its best, it should be done in one location. However, we will be in constant contact with Local Authorities about the needs in their areas, and we will be with them all the way through in the way this is applied.

35. Between December when Minsters said "Local Authorities are a key partner and we need to utilise their expertise, skills and success in order to design a modern welfare system that makes the most of the best of national and local services and delivers them from the most appropriate place" and in March 2012 the position changed.

36. A letter from Sir Bob Kerslake (CLG) and Robert Devereux (DWP) dated 21 March 2012 to local authority chief executives made it clear that both these Government departments took the view that benefits services must be "managed down".

> *Looking forward to 2013 it will, therefore, be important to manage down benefits services while retaining enough capacity to provide face to face support to these claimants. Capacity will also be required to maintain the Housing Benefit caseload prior to full migration, deliver localised Council Tax Support and, in England, to take on some aspects of the current Discretionary Social Fund.*

37. Precisely what "enough capacity" involved was not clear as the service delivery model remained undefined

> **Chris Grayling (WA 19 April 2012):** DWP continues to develop the face-to-face service offering for Universal Credit claimants with Local Authority colleagues and as such the number of Local Authority staff required to deliver the service offering is yet to be finalised. The Local Government Association has been working with the Department for Work and Pensions to explore pilot working in preparation for Universal Credit...to inform decisions on resources required by Local Authorities to support the transition from legacy benefits to Universal Credit.

Pilots

38. On 27 April Lord Freud and Sir Merrick Cockell on behalf of the DWP and LGA issued a prospectus seeking 12 *pilot* local authorities

> *The Department for Work and Pensions and the Local Government Association have jointly issued a prospectus calling on local authorities to deliver pilots to support residents in preparation for the introduction of Universal Credit in 2013.*

Pathfinders or Early Roll Out

39. In what appears to be a completely separate exercise, a month later, on 24 May 2012 later DWP announced four *"Pathfinders"*.

> *The early roll out of the Government's flagship new benefit system is expected to see up to 1500 new Universal Credit claimants coming on stream across four areas—Tameside, Oldham, Wigan and Warrington—each month. It will test the new simpler, single benefit payment system with local authorities, employers and claimants in a live environment before Universal Credit is rolled out across the country in October 2013.*

40. It should be noted that this was not a joint announcement with the LGA.

Pilots announced

41. The 12 "Pilot" authorities were announced by Lord Freud on 20 July 2012 and the pilots will complete their work by September 2013, just one month before the roll out of Universal Credits starts throughout England, Scotland and Wales.

42. Again there are mixed messages. Lord Freud said:

> "We are looking very hard at how to get face-to-face to people and it is looking to me as if the local authorities are the natural intermediary. I don't think they are the only intermediary however, and exactly how we design getting that support is something that we're doing a lot of work on, but local authorities are right at the heart as we design how we do that. They are right at the heart of our thinking."

43. Warm words indeed, but the advice issued in March by Sir Bob Kerslake (CLG) and Robert Devereux (DWP) has not been revised or replaced.

44. It is difficult to see how *lessons* from the pilots will be disseminated and how DWP and Local Authorities will be able to make the necessary changes between September 2013 and the "go live" date of October 2013. For example; the pilots may require the extension of IT links between DWP and Local Authorities or links between HMRC RTI and Local Authorities.

Conclusion

45. Universal Credit is a huge change. Although its introduction will be phased, the sheer scale and complexity of the changes means that it is vital that a local service delivery element is an integral part of the service delivery model at the outset.

46. There are multiple potential areas where difficulties for claimants can arise. These include:

- — Information supplied by employers under the Real Time Information (RTI) system being developed by HMRC and the functioning of the RTI system. The data is critical to UC calculations.
- — The Identity Assurance process and verification of documentary evidence.
- — The consequences that flow from household calculations where issues relating to RTI or Identity Assurance and verification may impact on the ability to make a household determination.
- — The Digital Divide and reluctance, difficulty or inability to use online services.
- — Changes of circumstance and transitional protection.

47. For these reasons UNISON argues that if a quality service is to be secured from the outset, the integrated local service delivery element needs to be built into the service delivery model.

48. At the moment there are no answers to the following basic questions about the Universal Credit service

- — How will someone apply locally?
- — Where will they apply locally and where will the local "Universal Credit" office be?
- — What documents will they need and where will they take them locally?
- — What office accommodation and It will be needed?
- — How many staff will be needed?
- — How does someone get face to face advice and help if they have a problem?

49. The concern is that experience from both the Pathfinders and the pilots will be too late to inform the decisions that need to be made at a local level (staffing levels; accommodation; technology; disabled access; equipment; funding) and that the "you have no future" inherent message to date threatens the chances of a successful start to the introduction of Universal Credit from the users perspective.

50. The Committee has specifically invited evidence on "*The impact of the changes on local authorities, including ... localisation of council tax support*" and this submission focuses on that aspect of the Inquiry.

51. Local Authorities face severe time constraints implementing a new system of support for local taxation when the legislative process is incomplete and financial constraints are severe.

52. The UNISON analysis of proposals emerging from Local Authorities, clearly indicate that vulnerable people will receive less support and that the measures are not consistent with providing "work incentives". In the words of Local Authority leaders in Surrey they will penalise "claimants who already go out to work which has the opposite effect of what the Coalition Government wants".

53. Reports from council officers also repeatedly contain warnings that it will be difficult to collect income from the most vulnerable households, particularly where they currently have no recent experience of meeting these costs because they currently receive 100% Council Tax Benefit.

Detailed Evidence

54. The third reading of the Local Government Finance Bill has not yet taken place in the House of Lords and is now unlikely to receive Royal Assent until late autumn. Local Authorities face a difficult situation and significant time constraints. Secondary legislation has not been published, schemes must be designed and consulted on, software developed and amended, staff trained and the substantial public communications exercise undertaken.

55. In June 2012 the Leaders of Local Authorities in Surrey wrote to the Sir Merrick Cockell, Leader of the Local Government Associations saying "*We would all urge the LGA to continue to press hard for a deferral of the start to April 2014.*"

56. Against this background Local Authorities have now started to publish consultation proposals for their Local Council Tax Support Schemes. UNISON has examined a significant number of the published proposals and the reports to Councillors from council officers. This evidence provides an analysis of the proposals.

Finance

57. The decision to localise Council Tax support was announced by the Chancellor of the Exchequer in the Spending Review 2010 in order to save £490 million. There was no prior consultation with local government.

58. To achieve the saving, the current financing system, whereby the actual costs of Council Tax Benefits are fully reimbursed by DWP, is being replaced with a fixed annual payment to Local Authorities by DCLG that forms part of the Business Rates Retention Scheme, incorporating a 10% reduction on previous spending levels nationally.

59. Local Authorities face significant financial challenges. Without their own Local Council Tax Support scheme they will be required to operate a default scheme but with only 90% of the resources. County Councils are making it clear that they will not assist district councils to meet costs associated with this change.

60. Reports from Council Officers are spelling out the difficulties and consequences:

if councils seek to design a local scheme that passes on the cost to existing claimants other than pensioners then:

— this will cause hardship, given a range of other benefit reductions coming in around the same time, eg the Benefits Cap, restrictions on Local Housing Allowances, new capital limits in Universal Credit; and

— the extra liability will probably not be collectible in full (and even then it may require additional resources to collect it), meaning that the cost comes back to the funding councils anyway.

(South Lakeland Council)

It is likely that these reforms will have an impact on residents who have not previously been required to pay Council Tax. It is anticipated by officers that it will be difficult to collect small amounts of tax from low income households so an assumption about collection rates needs to factored into the models above. (Stevenage Council)

It must be emphasised that there will be a potential loss of income through reductions in collection. Statistics are not available to clearly indicate how much income is likely to be uncollected. However, a scheme whereby all working age families need to contribute towards their council tax would result in approximately 8,500 households having a liability which would not have existed under the CTB regime. Given that we will be seeking to collect money from the most vulnerable members of the community, some of which will be required to pay council tax for the first time, maintaining collection levels could pose a significant challenge. There is the option to make further reductions in the scheme to compensate for this potential loss; but are we just fuelling a vicious circle? (Bromley Council)

61. Local councils are also facing unprecedented budget reductions. Spending Review 2010 removes £6.1 billion from formula grant by 2014–15. Unsurprisingly, cost control is a central feature of proposals. The requirement to protect pensioners means that the overall 10% reduction has to be achieved through reductions from working age claimants. Different Local Authorities have significantly different proportions of pensioners within their current caseloads and CLG has ruled out reflecting this in the financing assumptions.

62. In addition councils are assuming significantly reduced collection rates from proposals that involve ending 100% benefit and or increasing the proportion of Council Tax Benefit met by people on low incomes. One Local Authority is assuming a collection rate of just 35% on this additional income. Other authorities are more optimistic but are still only using a collection rate assumption of 70%.

63. Surrey Council Leaders set out the consequences “We are concerned at the level of impact on working age claimants, with the 10% funding reduction in actual fact translating to more like a 20% or 25% reduction being required after allowing for pensioners and other protected groups.”

64. They go on to warn that Local Council Tax Support schemes will “penalise claimants who already go out to work”.

“We feel a rushed implementation of a new scheme might lead to penalising claimants who already go out to work which has the opposite effect of what the Coalition government wants. This does not seem joined up with the current emphasis on helping ‘troubled families’.”

Letter Surrey Council Leaders to LGA; June 2012

65. Given the limited time available, most Local Authorities are basing their proposals on the current Council Tax Benefit Scheme but then either, only applying the scheme to a percentage of the Council Tax charge, or limiting the Council Tax charge that attracts support to a band.

Maximum Council Tax eligible for a discount

66. The vast majority of Local Authorities are proposing to restrict the level of Council Tax support.

(a) Wakefield:	“Working age claimants would be able to claim a maximum amount of support equivalent to 67% of their Council Tax bill”.
(b) Craven:	Options include capping at Band C, Band D or at 80% of the charge.
(c) Brighton:	The Council Tax discount for people of working age will be assessed on the basis of 90% of full Council Tax liability.
(d) Stevenage:	Less 10% from current benefit.
(e) Chiltern:	Considered replicate current scheme but reduce awards by 20% but noted the following problems with proposals—No regard to the Council’s duties in respect of child poverty, disabled people, homelessness or equalities, No additional support for the most vulnerable. No flexibility; Non working households left with less money than they officially need to live on. Looked at cap on discount at £1,200 or restriction to Band D but a funding gap remained.
(f) Thanet:	Working Age applicants have their awards reduced by a fixed percentage currently proposed to be 5% or 6%.
(g) Redbridge:	Calculating support using 90% of the Council Tax charge.

(h) Wycombe:	Options under consideration include: 1. Indiscrimate—across the board cut of 20% from all unprotected groups or 2. Differentiation—applying a cap based on a maximum level of Council support available—say at Band D.
(i) Epsom and Ewell:	Proposals that will restrict support to 85% of the Council Tax charge and restrict the maximum award to Council Tax Band F.
(j) Welwyn Hatfield:	Options under consideration: 1. Support calculated using 90% or 85% of the charge with the Council Taxpayer finding the rest. Under this option someone in a band D property getting 100% help now would have to find £2.83 per week or £4.25 per week. 2. Support is calculated using 75% or 72% of the charge with the Council Taxpayer finding the rest. Someone in a band D property on full benefits in Welwyn Garden City would have to pay either £7.08 per week or £7.92 per week.
(k) Rossendale:	Existing scheme less a percentage—those remaining of working age (c 56%) will see their benefits 1. reduced by c 20% in this scenario or 2. "Existing Scheme, consideration of vulnerable groups less a percentage"—those remaining of working age (c 56%) will see their benefits reduced by more than 20% in this scenario.
(l) Trafford:	Restrict support to the Band D property charge
(m) Hull City:	"Passported (or tapered) to maximum support of up to a set percentage of Council Tax liability yet to be determined"
(n) South Norfolk:	Bands E to H treated as Band D; Band D treated as Band C; Band C treated as Band B; Band B Is treated as Band A and Band A treated as have a Council Tax one ninth lower. Working Age claimants: For those on "passported" benefits the Council Tax Support scheme for South Norfolk will cap the maximum eligible Council Tax at 80% (after restriction of eligible Council Tax by band).
(o) Castle Point:	A maximum 65% reduction on their Council Tax liability if they are in a Council Tax Band A, B, C or D property. If they are in a Council Tax Band E, F, G or H property they will qualify for a maximum 65% reduction of Band D equivalent Council Tax liability. This also applies if a person is in receipt of income support, on an income-based jobseeker's allowance or on an income-related employment and support allowance.
(p) Bexley:	It is proposed that all claimants will have the amount of Council Tax liability used in any assessment of Council Tax Support capped at 85% of liability. In other words, under the new Council Tax Support scheme, claimants will be required to pay a minimum of 15% of their Council Tax liability. Phased in 5% year 1; 10% year 2; 15% year three.
(q) Bromley:	Entitlement is based on 75% of liability.

Minimum award or no award if support is calculated as below a minimum level of Council Tax Support

67. Under the current system of Council Tax Benefit the award can be as little as 1p a week.

68. A number of Local Authorities are proposing to introduce a minimum weekly award below which no support will be provided. This will affect households where someone is in low paid employment. The most common figure is £5 per week meaning that households that currently get less than £5.00 per week could lose up to £260 a year.

— £1 per week—Wakefield.

— £2 per week—Redbridge.

— £5 per week—Craven; Trafford; Welwyn Hatfield.

Capital

69. The amount of capital and savings can affect entitlement to Council Tax benefit. Capital and savings includes:

— Cash.

— Bank accounts including current accounts, building society accounts and post office accounts.

— ISA's, Tessa's, etc.

— Unit trusts.

— Shares.

— Premium Bonds.

— National savings certificates.

— Property and land (other than the home you live in) that you own.

70. Currently claimants are *ineligible* for Council Tax benefit if they have capital of more than £16,000. Capital of up to £6,000 is ignored and a "tariff" income of £1 per week for every £250 above £6,000 is included in the income assessment to determine the level of benefit awarded.

71. Many local Council Tax support proposals include changes to the treatment of capital.

72. The most common proposal involves lowering the level of capital that makes people in eligible from £16,000 to £6,000 (eg Bristol; Craven; Castle Point).

73. Some proposals lower the amount of capital that is ignored and start to apply the "tariff" income earlier. For example Harrow Council proposes that "Capital of up to £3,000 is ignored and a "tariff" of £1 for every £250 above £3,000 is applied".

Non Dependent Deductions (NDDs)

74. Non Dependant Deductions are a feature of both the Housing and Council Tax benefit determinations. The deductions from housing benefit are higher than the deductions from council tax benefit.

Non Dependant Deductions	*2012–13 Council Tax Benefit £/week*	*2012–13 Housing Benefit £/week*
Pension Credit Guarantee Credit or Savings Credit	Nil	Nil
Employment Support Allowance (income related) main or assessment phase	Nil	Nil
Jobseekers Allowance or Employment Support Allowance (contribution based)	3.30	11.45
Gross income of paid work is less than £124 per week		11.45
Gross income of paid work is more than £124 per week but less than £183 perweek		26.25
Gross income of paid work is less than £183 per week	3.30	
Gross income of paid work is more than £183 per week but less than £238 per week		36.10
Gross income of paid work is more than £238 per week but less than £316 per week		59.05
Gross income of paid work is more than £183 per week but less than £316 per week	6.55	
Gross income of paid work is more than £316 per week but less than £394 per week	8.25	67.25
Gross income of paid work is more than £394 per week	9.90	73.85
Jobseekers Allowance (Income Based)	Nil	
Income Support	Nil	
Working less than 16 hours per week or is on maternity/paternity/adoption or sick leave	3.30	
Any other not included above	3.30	

75. The significance of non dependant deductions was highlighted in a recent speech from the Prime Minister.

> *"If a family living on benefits wants their adult child to stay living at home they are actually penalised—as soon as that child does the right thing and goes out to work. You get what's called a non-dependent deduction, removing up to £74 off your housing benefit each week. I had a heartrending letter from a lady in my constituency a few weeks ago who said that when her son leaves college next month, her housing benefit will drop significantly, meaning her family may have to split up. This doesn't seem right."*
>
> *David Cameron MP; 26 June 2012*

76. Increases to non dependant deductions are a feature of many scheme proposals.

Trafford

Under this proposal, the deductions will increase by 20% and a new charge of £4 per week will be made for other adults not in work.

Old Scheme (Council Tax Benefit)	*New Scheme (Council Tax Support)*
A couple live with their 26 year old daughter who earns £400 per week, and their 20 year old son who receives income support. A deduction of £9.90 per week is taken from the claimants Council Tax Benefit for their daughter and no deduction is taken for their son.	Under the new scheme the deduction will increase to £11.88 per week for their daughter and £4 per week for their son. The total deduction is now £15.88 per week.

Wakefield

£5 per week deduction from each member of the household in receipt Jobseekers allowance; Employment and Support Allowance; Income Support and Pension Credit.

The level of Council Tax support would be subject to a deduction of between £5–£10 a week for every non-dependant in the household.

Wakefield proposed NDDs	£
Gross weekly income less than £215 per week	5.00
Gross weekly income more than £215 per week	10.00

Bristol

Increase non dependant charges by 50%.

South Norfolk

The Council proposes that where there are other adults (non-dependants) living in the household it is assumed that they are capable of paying an element of the Council Tax...applying only one rate of deduction, at a level of £10 for each and every non-dependent

77. Redbridge and Brentwood provide an interesting contrast. Redbridge is proposing significant increases while Brentwood is proposing to remove non dependant deductions completely.

Non Dependent Deductions	*Current* £	*Redbridge proposed* £	*Brentwood proposed* £
Jobseekers Allowance or Employment Support Allowance (contribution based)	3.30	5.00	0.00
Gross income of paid work is less than £183 per week	3.30	5.00	0.00
Gross income of paid work is more than £183 per week but less than £316 per week	6.55	7.00	0.00
Gross income of paid work is more than £316 per week but less than £394 per week	8.25	10.00	0.00
Gross income of paid work is more than £394 per week	9.90	15.00	0.00
Working less than 16 hours per week or is on maternity/paternity/adoption or sick leave	3.30	5.00	0.00
Any other not included above	3.30	5.00	0.00

Earnings Disregards

78. Currently the earnings disregards are

— Single claimant—the first £5.

— Couple—the first £10.

— Single Parent—the first £25.

79. The proposals out for consultation vary with some authorities proposing increases

Wakefield

— Single claimant—the first £20.

— Couple—the first £25.

— Single Parent—the first £40.

Brighton

— Single claimant—the first £10.

— Couple—the first £10.

— Single Parent—the first £25.

Bristol

— Single claimant—the first £7.50.

— Couple—the first £10.

— Single Parent—the first £35.

Tapers

80. At present the Housing Benefit (HB) scheme operates a 65% taper and Council Tax Benefit (CTB) operates a 20% taper resulting in a claimant retaining 15p of every additional £1. The taper that will be applied by Universal Credit is 65%.

81. Several Local Authorities are proposing to increase the taper (ie the percentage of income above the applicable amount that is used to reduce entitlement to support).

82. Trafford Council is proposing to increase the taper to 30% meaning that a claimant in receipt of Housing Benefit and Local Council Tax support will retain just 5p of every additional £1.

83. Welwyn Hatfield are considering a proposal to increase the taper to 40% which would mean that a clamant in receipt of Housing Benefit and Local Council Tax Support would *lose* 5p for every additional £1.

What is counted as income?

84. The treatment of Child Benefit and Child Maintenance and whether it is counted as income is another relevant issue. Child Benefit was disregarded from Housing and Council Tax Benefit calculations as part of a wider strategy to address child poverty.

Child Benefit

In the 2008 Pre-Budget Report (Chapter 4 Fairness and Opportunity for All), the Chancellor announced that Child Benefit would be disregarded in the calculation of HB and CTB. The intention is to boost the incomes of many of the lowest paid families, including those who are the parents of children in poverty.

Statutory Instrument 2009 No 1848 was laid in Parliament on 15 July 2009. In summary, the changes in this set of regulations are the introduction of a full disregard of Child Benefit in Housing Benefit (HB) and Council Tax Benefit (CTB). This is effective from 2 November 2009 amendments to reflect the changes to registration requirements for child minders in England made by the Childcare Act 2006 effective from 5 August 2009.

> **Source: Housing Benefit and Council Tax Benefit Circular A17/2009;** Department for Work and Pensions; 1st Floor, Caxton House, Tothill Street, London SW1H 9NA.

Brentwood: Proposing that Child Maintenance payments are included into the income assessments.

Craven; South Norfolk: Proposing removing Child Maintenance disregard.

Trafford: Proposing to include Child Benefit in the calculation of income

Old Scheme (Council Tax Benefit)	*New Scheme (Council Tax Support)*
A couple with two children (over five years old) receive Council Tax Benefit of £15 per week. They receive £33.70 per week in Child Benefit and this income is not taken into account when working out their award.	The same couple would now receive £10.11 per week in Council Tax Support because their Child Benefit is now taken into account as income.

South Somerset: All income should be taken into account in the calculation of Council Tax Reduction support. This could include:

(a) Child Benefit;

(b) Maintenance for a child paid by a former partner; and

(c) rent from sub-tenants and boarders.

Backdating

85. Currently Council Tax Benefit awards can be backdated for up to six months if the claimant can show a good reason why they did not claim from an earlier date.

Bexley: One month.

South Norfolk; Trafford: Bromley; Epsom and Ewell: Proposing that there is no backdating.

Second Adult Rebates

86. Removing the second adult rebate is a feature of many scheme proposals.

87. Authorities proposing this include: Bexley; Thanet; South Norfolk; Bristol; Trafford; Hull City (Kingston upon Hull), Wakefield, Craven.

14 August 2012

Written evidence submitted by the Women's Budget Group

SUMMARY

Monthly payment of Universal Credit

- Universal Credit (UC) will normally be paid monthly—with limited exceptions, and budgeting support and loans to help those finding this difficult. We suggest UC claimants should have the choice of more frequent payment.
- The Government says monthly payment of UC mimics life in work. But many on low incomes in work have wages and/or benefits and Tax Credits paid more frequently, which matches common budgeting patterns for those on low incomes.
- Monthly payment with only limited exceptions does not chime well with the Government's promotion of choice and arguments against interfering in household money management. Only one in 10 claimants think it would make their lives easier.
- This is not just a problem of transition or about a small minority who have difficulty budgeting. And women are likely to be hit harder, as in low-income families they tend to make more frequent purchases that will be squeezed as money is stretched.
- Providing choice to claimants would avoid UC becoming bogged down in labour-intensive discretionary front-line staff decisions on exceptions or overwhelmed with applications for advance payments, and would therefore aid its smooth introduction.

Payment of Universal Credit to one person/account for couples

- Couples must choose one partner/account to be paid UC (possibly a joint account). Absorbing payments for children and rent into UC makes this more significant. There will be very limited exceptions (such as for domestic violence), as now.
- The Government argues that paying all of UC to one account mimics wages. But wages are not jointly owned or assessed, like UC; and many families have two wages.
- Paying all the UC a couple gets to one partner/account is likely to result in less equal couple relationships, and one partner not gaining or practising financial capability.
- Logically, if couples can choose the partner/account to be paid UC, they should be able to choose to split UC between them too—which is what we propose. This is compatible with UC technology, and the Government favours expanding choice to split UC by percentages over dividing it by its constituent elements.
- Arrangements for UC must be flexible enough to work for all kinds of families. Equality and sharing of resources cannot be assumed for all even with joint accounts. And facilitating individual access to income and financial security is not a threat to family stability, but on the contrary is likely to strengthen and support it.

1. INTRODUCTION

1.1 The Women's Budget Group (WBG) is an independent voluntary organization of individuals from academia, NGOs etc. We have been scrutinizing the gender implications of UK governments' Budgets and spending plans since the early 1990s. We believe that knowing about the gender implications of policy changes is important in order to reduce gender inequalities and to ensure policy changes meet their goals effectively. We have already undertaken gender analysis of the Welfare Reform Bill (now the 2012 Act).

1.2 This evidence focuses on the proposals for monthly payment of UC, and payment to one person/account for couples. Further information can be obtained from the following documents on our website—http://www.wbg.org.uk/RRB_Briefings.htm

- response to Social Security Advisory Committee (SSAC) consultation on draft Claims and Payments Regulations;
- briefing on frequency of payment of UC for Committee stage of Bill in House of Lords; and
- briefing on UC payment issues for earlier stages of Bill.

2. MONTHLY PAYMENT OF UC

2.1 The Government intends to pay UC monthly in arrears to most claimants. This may align better with some rent/mortgage payments, but differs from how most benefits/Tax Credits work now, as they are largely paid more frequently (or this is a choice), for those in work as well as out. Monthly payment is a significant change; we do not believe the problems it poses affect only a small minority of claimants who cannot manage their money, or that these problems are just transitional.

2.2 There is no right of appeal about how benefits are paid; so it is important the Government gets it right. We are particularly concerned about the impact of monthly payment on women, as they are more likely to manage the household budget in low-income families, and be responsible for the more frequently purchased items (daily/weekly). If there is pressure on household budgets, women are more likely to go without, as the "shock absorbers" of poverty. Women also often manage household debt. So the strains of trying to make UC last a month are more likely to be borne by women, especially in families with children. We are not aware that the gender implications of monthly payment have been investigated in detail.

2.3 The Government has to its credit said it wants UC design to be user-centred, and is investigating claimants' views (DWP Research Report 799, 2012). A significant proportion see monthly payment as posing a risk to their financial security; exercise control over their money now in part by budgeting weekly; and value more frequent payment of benefits. This report suggests information, budgeting tools etc. are unlikely to be enough to resolve these issues. Many families also have no savings to fall back on.

2.4 The quantitative survey of claimants likely to be affected by UC (DWP Research Report 800, 2012) included a chapter on budgeting (albeit unfortunately based only on the main claimant). Only one in 10 thought monthly budgeting would make things easier. One in two of those budgeting their money did so weekly (the commonest period) or more frequently. Two-thirds of the total sample ran out of money before the end of the week/month always, most of the time, more often than not or sometimes. 42% in total said monthly payment would make budgeting harder (with higher percentages in all out-of-work groups). Most who said the changes would make it harder to budget were unable to specify anything that would help.

2.5 The Government says monthly payment in arrears reflects the world of work. But its figures show only some one in two earning £10,000 per year or less are paid monthly. Jobs available to claimants, and the "mini-jobs" UC may encourage, may not be monthly paid. A minister described the aim as "to reflect … experience … working full time";[72] but many work part-time, and the labour market is increasingly flexible. Many couples have both partners in work, and many low-income workers also receive benefits/Tax Credits. So one monthly payment will not smooth the path into work, or reflect the world of work, for many.

2.6 The Government argues that monthly payment will encourage claimants to take personal responsibility for their finances, and to budget on a monthly basis, which could save them money (eg by direct debits). Some people always budget better; but people on low incomes already have to exercise responsibility every day just to survive. Currently, however, they can take advantage of frequent payments of different benefits; many "juggle", prefer weekly budgeting, and find labelling of benefits helpful in allocating spending. Some operate in cash entirely, or largely; they may not want bank accounts (in part because of penalty charges); and banks may not be keen on their business. They may prefer to keep more control and flexibility than they feel is possible with direct debits etc. (as revealed in the user-centred design testing), in part because unexpected events necessitate frequent rapid readjustment.

2.7 The Government is exploring how to help those who find monthly payment problematic. However, financial products like Jam Jar Accounts are unlikely to suit everyone—or be free. Many claimants may not "successfully transition to monthly budgeting". And the user-centred design testing suggested those at greatest risk may make least use of any help.

2.8 There is a real danger that the smooth introduction of UC will be threatened by focusing on monthly payment as the norm. UC risks being bogged down in labour-intensive discretionary staff decisions on exceptions, as cases will be "assessed on their individual merits" (with guidance, not regulations), and need monitoring as only temporary expedients. Or a ceiling on numbers may result in more widespread financial hardship, and the UC system being overwhelmed with applications for loans, risking its operation and reputation.

2.9 We suggest those wanting more frequent payment (eg twice monthly) should be able to choose it. This would not create significant additional costs. And a minister confirmed (in the context of split couple payments) that "if we find that we need to make more splits than anticipated the computer system will allow us to do that. We are designing that in".[73]

2.10 It is important to work with the grain of how low-income people manage their money. As the Government does not wish to label claimants as financially incapable it will move them to monthly payment as fast as possible. But this is not primarily about financial (in)capability (or claimants adapting to the way benefits are paid now), but about the demanding exigencies of living on a low income—and the (gendered) implications if these are not taken into account.

3. Payment to Joint Claimants

3.1 UC claims will be made by a couple jointly, and there will be a single monthly payment to one account they nominate—or if not, the Secretary of State may nominate one. The Government is prepared to make (limited) exceptions, to split the payment between the couple (where this is considered to be in the interests of the claimant/family). Splitting payments is often discussed in the same breath as exceptions to monthly payment, or Housing Benefit paid to claimants; but it raises different issues.

3.2 Split benefit payments can be made now; but their number is apparently unknown. We believe insufficient thought has gone into situations in which split payments may be needed.

[72] Parliamentary UnderSecretary of State for Work and Pensions, House of Commons *Hansard*, 9.5.12, col. 123.
[73] Lord Freud, House of Commons *Hansard*, 23.1.12, col. 909.

3.3 However, our main focus here is not exceptions, but our proposal that couples' choice should be expanded to include the possibility of paying a percentage of UC into two accounts.

3.4 Our concerns about payment of UC to couples are set out in our briefings, so this is a summary only. The single UC payment is more significant because benefits/Tax Credits are being combined. Lack of financial independence can delay or prevent escape from domestic abuse. But we are also concerned about concentrating financial resources and power in one partner's hands more generally. Arguments made before against paying all benefits/Tax Credits to one partner included: paying money for children to the "main carer"; inconsistency in terms of "rights and responsibilities" if only one partner receives benefit; and the likelihood of a more equal relationship if both partners have some income.

3.5 This is relevant to both sexes, but especially women. Women are more likely to be economically dependent, and subject to financial and other abuse. In our research with low/moderate-income couples, women in particular valued "not having to ask" for money.[74] They are also more likely to have an independent account.

3.6 There are several reasons why evidence from claimants on this is not as readily available. Sometimes the single payment for couples is conflated with the idea of combining benefits, muddying the issues. More broadly, individuals may present their life as a couple positively—whilst expressing concern about others.

3.7 The evidence from the quantitative research on the impact of UC on claimants likely to be affected should therefore be read with caution. In addition, the chapter on budgeting was based only on interviews with the "main claimant" in couples,[75] omitting their partner's views. There were virtually no questions about how couples manage their money, or which account would be chosen for UC if not a joint account. The question about a single UC payment was asked of single as well as partnered people; and it is unclear how many were currently receiving several benefits/Tax Credits. So it is hard to interpret answers given by 55% (this would make no difference), or by 20% (this was already the case). The user-centred design testing focus on claiming, not payment, meant it did not investigate this issue much either.

3.8 While combining benefits may be key to UC design, paying it into one account is not. A single payment of UC was originally said to mimic wages; but many couples have two earners now, and unlike UC wages are not jointly owned or assessed. It was suggested that, just as someone can choose an account for their wage, so couples can choose an account for UC. But this confuses an individual earner with two partners in a couple claiming UC.

3.9 The Government says only 7% of cohabiting and 2% of married couples have completely separate finances. This seems to come from the Families and Children Study, and families with children are more likely to have joint finances. But its relevance is anyway unclear. The Government has also said it is for couples to decide how to manage their finances. But the relevance of this is also unclear. Deciding whether to pool resources and how to deal with them is a different issue from who receives them initially.

3.10 The discussion should instead be about whether a single UC payment can ensure access to resources for both partners and encourage an equal relationship. The Government recognises that "particularly in low-income households…men sometimes benefit at the expense of women from shared household income".[76] And in the original Equality Impact Assessment, it undertook to consider the potential impacts of paying UC to one partner; we are unclear how or to what extent it has carried this out. Equality in sharing resources and financial decision-making cannot be assumed for all. And joint accounts cannot guarantee this. They are a symbol of marital togetherness, and many couples have them; but they are not appropriate for all, especially because they involve joint liability. Solving this via special financial products may not be possible, especially for people on low incomes. So for some couples, neither one person getting all the UC nor a joint account may be suitable.

3.11 The Government's central goal for UC is to encourage people into work. But personalised individual conditionality does not fit well with a system in which one partner receives no benefit. The Government says that "both members of the couple play an equal part in the claim"; but this is not the case if only one gets the payment.

3.12 The Government is keen on all adults acquiring financial capability; paying all the UC to one partner in couples would seem to make this less likely.

3.13 Couples often use a mix of income streams, and joint and individual accounts, to cope with the complexity of modern family life, especially when (in remarriage/repartnering) one or both partners have commitments to previous families. And recent research suggested that an imbalance of power or control of financial matters could cause relationship problems, and this could be related to gender role expectations—though lack of adequate finance was the commonest cause.[77] Only one partner receiving UC is less likely, in our view, to provide a stable basis for committed coupledom.

[74] Qualitative research for Within Household Inequalities and Public Policy (Gender Equality Network: www.genet.ac.uk), funded by the Economic and Social Research Council, carried out with Sirin Sung.

[75] This was based on a hierarchy of benefits, and whether they made the claim.

[76] House of Commons *Hansard*, Written Answers 14 March 2011, col, 126W.

[77] Ramm, J *et al.* (2010) *Relationship Difficulties and Hel-seeking Behaviour*, Research Report DFE-R018, London: Department for Education. (This was a representative sample of couples in long-term relationships, interviewed in 2002–03.)

3.14 The Government wants UC to be workable; so it needs to ensure that the arrangements work for all families—including those just getting together, splitting up, or cohabiting—not just long-term married couples.

3.15 Clearly, by acknowledging the need for exceptions, the Government recognises a single UC payment is not always appropriate, and allowing a split is compatible with its goals for UC. We suggest this should be expanded to include giving couples the choice of splitting the payment between them/between accounts. During Lords Report stage (23 January 2012), the minister made clear the Government was more prepared to consider expanding choice in terms of couples splitting payments by percentages than dividing UC into its elements, and confirmed the technology did not prevent this.

3.16 Allowing couples to choose to split UC reflects the world of work and real families today, when most individuals have one or more income sources each, often including wages but also benefits/Tax Credits. It could also encourage discussion within the couple about what UC is meant to cover, and about financial distribution and decision-making. It would also demonstrate that UC is flexible enough to suit the various ways couples today choose to organise their lives and finances. If both UC payments were reduced simultaneously with wage increases, couples could see the impact of their decisions about work as clearly.

3.17 Giving choice to couples risks the stronger partner dominating. But that potential is there already. And exceptions, with the Secretary of State sanctioning splitting when necessary, would of course need to be retained. However, in our view this by itself is too unwieldy and labour-intensive a mechanism to encompass the variety of cases in which couples might prefer to split UC.

3.18 Finally, on a related issue, we are very pleased that the Government appears to have taken at least an interim decision not to pay contributory benefits and UC together. The possibility had been mooted that the contributory benefit of one partner in the couple could be paid to the other partner if they were the UC payee. This is not consistent with contributory benefits belonging to individuals. We would urge that this should be ruled out for the longer-term as well.

8 August 2012

Supplementary written evidence submitted by the Women's Budget Group

1. More Frequent Payments of Universal Credit

1.1 In limited situations, the government has acknowledged that some people, in addition to budgeting support and access to financial products, will be likely to need more frequent payments of universal credit than the usual payment monthly in arrears. At the time of writing, it is not yet clear how many people are envisaged to need these, and details about how they might work have not yet been published. But the monthly assessment which will be the norm for universal credit (see 2. below) clearly limits the options. The most likely frequency for exceptions is probably twice monthly, so this is what is assumed below; this is not the same as fortnightly, because universal credit will operate on calendar months rather than four weeks. Normally payment is likely to be made seven days after the end of the month.

1.2 It is assumed that, separately from this, some claimants will be given an advance payment of universal credit in the first month of entitlement, as otherwise they will not be able to meet their commitments; this is not discussed here. Instead, it is envisaged that a claimant may have been on universal credit for some time, but is finding monthly payments difficult, even with the help of budgeting support and access to financial products, and it has been decided that they can at least temporarily have more frequent payments. The two major possibilities, given monthly assessment, are half the payment made in advance, or half withheld and paid later. In the first case, half the payment could be made (eg) a few days after the end of the first fortnight of the assessment month, and the rest as planned seven days after the end of that month. In the second, half the payment could be made seven days after the end of the month, and then half another half-month later. Each of these has implications—the first in particular for the administrative authorities, and the second in particular for claimants.

1.3 If people are paid half their monthly payment in advance, ie half way through the relevant month, this would be an interim "down payment", as all the relevant circumstances would not always be known then. This would therefore have to be corrected if necessary in the second half payment; and this would presumably have to be repeated each month. This outcome would seem contrary to the government's wish to avoid the under- and over-payments that dogged tax credits. But on balance, it would seem preferable for most claimants to half the payment being withheld.

1.4 Alternatively, claimants would be paid only half of what they are owed for the month seven days after the end of that month, and then would wait another half month for the remaining half This would seem to contradict the government's wish to help those who find monthly payment most difficult, and could result in hardship cases and requests for advance payments (and adverse publicity for the scheme).

1.5 It is important for the sake of claimants that the arrangements for exceptional payments are clarified. In addition, if the government pursues the option put forward in the Women's Budget Group's evidence to the Select Committee—of amending the draft regulations to allow the choice of more frequent payment for all claimants who would prefer this—these arrangements would clearly apply to larger numbers of claimants and clarification is crucial. The monthly assessment element of universal credit design limits the options. But on balance we believe payment of half the payment in advance is preferable to withholding half, and that claimants should be free to choose twice monthly payments (as set out in our original written submission).

2. Monthly Assessment and the "Whole Month" Approach to Changes of Circumstances

2.1 Monthly assessment for universal credit, and the "whole month approach" to changes of circumstances, were not discussed in detail during parliamentary debates on the Welfare Reform Act 2012. Their implications have only been fully realised on publication of the Explanatory Memorandum for the Social Security Advisory Committee about the draft regulations on decision-making and appeals. This note therefore also discusses these.

2.2 Monthly assessment for universal credit will, firstly, mean that if someone is entitled for less than a month, they will not receive any universal credit for that month. (This seems, for example, as though it would affect someone who gets a job towards the end of a month taking them out of entitlement.) Secondly, the whole month approach to changes of circumstances means that such changes will be applied to the month as a whole, rather than just to the part remaining after the change on a pro rata basis. The situation that obtains on the final day of the month will determine the amount of payment for the previous month as a whole. This will be an advantage for some, if (for example) they have a new baby towards the end of their universal credit month, as it will be assumed that the baby was born at the beginning of the month, so additional needs will be assumed and extra benefit paid for the whole month. But for others, this approach will have the opposite effect. For example, if a dependent teenage daughter turns 18 and leaves home towards the end of the month, she will be treated for universal credit purposes as though she had left at the beginning of it, despite the claimant having had to feed her for most of the month.

2.3 This will mean that the amounts people are paid in universal credit do not bear the same close relationship to their circumstances as means-tested benefits and tax credits do currently, because any change will be deemed to apply for the whole month regardless of when it occurs. In addition, it seems that the decision letter about how any changes of circumstances affect the amount of universal credit paid—either positively or negatively—is not going to be sent until the end of the month to which it applies. Yet we know that claimants are going to be encouraged to budget monthly, arrange direct debits with payments on fixed dates, or set up "jam jar" or other accounts to siphon off parts of their universal credit for different purposes (etc.). This is not a minor element of the system likely to affect few people; it is clear both from the experience of tax credits, and from research by the Centre for Analysis of Social Exclusion, that many claimants living on low incomes have very frequent changes of circumstances.

2.4 By adopting a whole month approach to changes of circumstances for universal credit, the government may avoid administrative complexity, and (it may hope) the adverse publicity accompanying under- and over-payments of tax credits. Yet in practice these under- and over-payments will still exist. They will just go unrecognised, because they will be borne by the claimants of universal credit, which will be much less responsive to changes in their lives.

3. Conclusion

As was made clear in our previous briefings (see www.wbg.org.uk—Briefings), while we are concerned with effects on the household budget as a whole, we are also concerned about the specific implications of monthly payments of universal credit for women, who in low income families often have the major responsibility for household budgeting and managing debt, and who often bear the costs of trying to make ends meet. The arrangements for more frequent payment, monthly assessment and the whole month approach to changes of circumstances are also therefore more likely to affect women.

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