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OFFICIAL REPORT

First Delegated Legislation Committee

UNIVERSAL CREDIT (WORK ALLOWANCE) AMENDMENT REGULATIONS 2015

Thursday 19 November 2015

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IN GENERAL COMMITTEES

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The Committee consisted of the following Members:

Chair: SIR EDWARD LEIGH

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|--|---|
| † Argar, Edward (<i>Charnwood</i>) (Con) | † Rutley, David (<i>Macclesfield</i>) (Con) |
| † Fernandes, Suella (<i>Fareham</i>) (Con) | † Smith, Jeff (<i>Manchester, Withington</i>) (Lab) |
| † Ghani, Nusrat (<i>Wealden</i>) (Con) | † Stephens, Chris (<i>Glasgow South West</i>) (SNP) |
| † Greenwood, Margaret (<i>Wirral West</i>) (Lab) | † Tami, Mark (<i>Alyn and Deeside</i>) (Lab) |
| † Hayman, Sue (<i>Workington</i>) (Lab) | † Thornberry, Emily (<i>Islington South and Finsbury</i>) (Lab) |
| † Kwarteng, Kwasi (<i>Spelthorne</i>) (Con) | † Tolhurst, Kelly (<i>Rochester and Strood</i>) (Con) |
| † Lynch, Holly (<i>Halifax</i>) (Lab) | |
| † Murray, Mrs Sheryll (<i>South East Cornwall</i>) (Con) | Marek Kubala, <i>Committee Clerk</i> |
| † Opperman, Guy (<i>Hexham</i>) (Con) | |
| † Patel, Priti (<i>Minister for Employment</i>) | |
| † Quin, Jeremy (<i>Horsham</i>) (Con) | † attended the Committee |

First Delegated Legislation Committee

Thursday 19 November 2015

[SIR EDWARD LEIGH *in the Chair*]

Universal Credit (Work Allowance) Amendment Regulations 2015

11.30 am

Emily Thornberry (Islington South and Finsbury) (Lab): I beg to move,

That the Committee has considered the Universal Credit (Work Allowance) Amendment Regulations 2015 (S.I. 2015, No. 1649).

It is a pleasure to serve under your chairmanship, Sir Edward.

The Opposition do not support the regulations. We have a number of concerns not only about the substance of the Government's proposals, but about the way in which they have been brought forward. During the passage of the Welfare Reform Act 2012—you may remember that, Sir Edward—Ministers were fond of drawing an analogy between universal credit and a bookcase. The 2012 Act created the basic framework for the new benefit, but left most of the detail to the regulations, which would fill in the gaps, Ministers said, like books filling empty shelves. To pick up that analogy, more than three years have passed and the bookcase is now in a pretty sorry state. It has been hacked away at over the years, with no one paying much attention apart from, of course, the Chancellor of the Exchequer, who has been paying a great deal of attention to it. The bookcase is now in such a precarious state that the wrong sort of book placed on the wrong shelf in the wrong order at the wrong point could cause the whole structure to collapse.

I do not know if hon. Members have had the sorry experience I have had of going to IKEA and buying and then trying to assemble Billy bookcases, which I understand are some of the best sellers. I have a number of children, all of whom have had more and more books, and putting those bookcases together is very difficult. One has to press in a little metal thing and bang away at it, and it goes too far or gets lost, so instead of four little bits of metal holding up each shelf, there may only be three, so the books have to be put on the shelves in a way that stops the bookcase falling over altogether. That has been my experience, so when reading through previous comments comparing universal credit to bookcases, I cannot help but think of the Billy bookcases in my children's bedrooms that are in a very sorry state. That, I am afraid, is where we have got to with universal credit. The regulations we are debating today are exactly the sort of book that could turn over the whole bookcase. In a non-metaphorical way, they will put the entire structure of universal credit under such strain that it may no longer be able to bear the weight of the expectations that Ministers have given us all about what universal credit will mean.

The regulations propose significant cuts to the work allowances within universal credit. A household's work allowance sets the ceiling for what they can earn before their universal credit starts to be withdrawn. The idea

underpinning one of the main objectives of universal credit is that hard work should be rewarded. We all agree with that. In practice, the work allowance was supposed to ensure that those who moved into work for the first time would not face a financial penalty if they did so. The 2009 paper entitled "Dynamic Benefits", published by the Centre for Social Justice, is sort of the Old Testament of universal credit—I do not know where Ministers are proposing to put this particular book on the bookcase, because it is the sort of thing that could topple the whole thing over by itself—and it said:

"For those capable of working, work should always be preferable to benefit payments as a route out of poverty. Those on low earnings, and those working part-time, should retain more of their wages. Hence, we propose increasing the earnings disregards, and reducing the highest benefit withdrawal rates."

Well, hooray! We would all agree with that.

After the 2010 election, the coalition's White Paper built on that theme and warmed to it, singling out work allowances as a specific example of how the new benefit would help to meet the Government's objective of making work pay. The fact that the disregards would be more generous than those under existing benefits and tax credits was a key feature of work allowances, according to the White Paper. The argument went as follows:

"People will generally keep more of their earnings for themselves and their families than is currently the case... Universal Credit will ensure that all amounts of work will be more financially rewarding than inactivity and remove the current barriers to small amounts of work."

So all amounts of work will be financially rewarding. That is what universal credit was supposed to be about. That is what the Old Testament said, and that is what the White Paper said. That sounds like a reasonable argument, and we would support it. However, these new regulations turn that argument completely on its head: not only do they cut some households' work allowances almost in half, but they remove some people's work allowances altogether. Does the Minister realise that? Is the Department aware that that is what it is doing?

According to figures compiled by the House of Commons Library, the changes will result in families in a range of different circumstances losing out, whether they are in work or not. The most startling effect will be on households with no dependent children. Whether singles or couples, they will no longer have any work allowance at all. From the moment they start working, they will lose benefits. There will be no work allowance. Is the Minister aware that that is what the regulations do? For those families, the cuts will mean immediate withdrawal of 65% of their universal credit from their first hour of work. In practice, the change is likely to cause losses of between £800 and £900 a year. If we add tax and national insurance, the figure could be 75% or even higher.

It is hard to imagine a situation more starkly in contrast with the original purpose of universal credit. Do the Government know that? Or, because there is no impact assessment, is the Minister unaware that this will happen? That is not all. Even more severe will be the impact on people—likely to be single parents—moving into work for the first time. As is so often the case with these Tory welfare reforms, single parents will be hit harder than anyone else. Single parents—by whom we usually mean single mothers—will, in some cases, have their work allowances reduced from £9,300 a year to just £5,000 a year. Under the current higher work

allowance, a single mother who earns the minimum wage can work for up to 22 hours a week on universal credit before she reaches her limit. The cuts will mean that she will start to lose support the moment she works more than 12 hours a week. It is quite shocking that a single parent with two children could face losses in excess of £2,000 a year as a result of the cuts, even if she works full time and gains from the higher minimum wage.

We all want children to be brought up in households where a parent is in work, giving those children a good example, where it is practical, of the best way to live, so why are the Government making it so difficult—again—for single parents? Are they unaware that this will happen, or are they doing it deliberately? If they are doing it deliberately, what is the rationale? How can it be justified?

If this is what the Government meant by changing work incentives, the incentives are surely being changed in exactly the wrong direction. That cannot be what the Secretary of State meant when he promised repeatedly that universal credit would “make work pay.” I suggest to the Minister that

“it is one thing to wag our finger at people who are unemployed and say that they must go to work, with a sort of moral purpose to that. Of course it is quite meaningless to someone if you are telling them that and they think they are going to lose money, or certainly not gain any money”.

I could not have said that better myself, but I did not say it first. Does the Minister know who did? She must be aware. I am sure that she has a copy of the Secretary of State’s collected speeches by her bed and knows that it was he who said that in early 2011, when he was speaking about how the work allowances would improve incentives to work for low-income households.

The cuts mark a radical shift away from the principle that work should always pay. If the Minister does not want to take my word or the word of the House of Commons Library, there are others. Just a few weeks ago, witnesses from the Institute for Fiscal Studies and the Resolution Foundation made the same point when giving evidence to the Work and Pensions Committee on the Government’s tax credit cuts. The witnesses argued that

“more of the debate should be focused on what we have done to the original purpose of universal credit in these drastic cuts to the work allowances”.

They said that, because of the changes,

“the structure of what will end up as universal credit has...been fundamentally changed”.

Universal credit will not be universal and it will not make work pay, so what is the point of it? Why are the Government proposing to change it again? We share those witnesses’ concerns. It is bitterly disappointing that Ministers are pressing ahead with their plans before responding to the considered arguments of independent experts. Perhaps we should not be surprised by the Government’s reticence on the question of how work allowances can possibly be cut without affecting incentives to work. If I am honest, I do not expect the Minister to square the circle today, because she cannot. It is perfectly clear that in making these regulations the Government have wilfully failed to take notice of any evidence on their probable effects. They should have—or perhaps they have looked into it and do know the effects, and they have just not shared them with us. But we have found out from other sources.

The Social Security Advisory Committee said of the regulations that

“the impact needs to be analysed carefully and the policy about work incentives should be derived from strong evidence.”

Well, where is the evidence? The Committee was concerned that

“there may be an uneven impact on individuals”—

that is true—and expressed disappointment with the

“lack of statistical analysis to support the view that the abolition of the work allowance for several UC categories will not deter people from seeking work”.

Too right. In the House of Lords, the Secondary Legislation Scrutiny Committee was similarly unimpressed, issuing a report that said its members were

“disappointed that no impact assessment or similar statement has been provided showing how many people are likely to be affected by these changes and to what degree.”

It is not just the lack of an impact assessment that is disappointing, or the fact that the proposals have not been subject to any form of consultation, or that the Government seem wilfully to have failed to look at the evidence or, indeed, even tried to look for any—all of which are, of course, problems in a democracy. More troubling still is the way in which the Government have sought to implement these cuts by the back door. They have put them into regulations that would not be subject to a vote, or even a debate, unless they were prayed against. They have tried to slip them through without people noticing. The controversy generated by their proposed cuts to tax credits, which in many ways mirror the proposals we are discussing, ought to have made Ministers pause for thought before they moved forward with equivalent cuts to universal credit.

The Government may have won the election, but they have a majority of only 12. In my respectful submission, they should not be behaving with the arrogance of a Government with a majority of 120, but this behaviour shows that sort of arrogance. They have shown the same degree of indifference to public opinion that they have shown to evidence of the impact the proposals are likely to have on working families. Ministers may have assumed—perhaps quite correctly—that cuts to universal credit would not provoke the same level of concern as cuts to tax credits. There is, of course, less of a sense of urgency when it comes to cuts to a benefit that, for many people, may be several years away and that seems to be continually retreating into the distance, but however distant a prospect universal credit seems to us today, we should be none the less concerned about what the proposals would mean for working families on low incomes, whether the impact is felt in one years’ time or 10 years’ time.

The fact is that if—I repeat: if—Ministers are right when they say that most people in the current system will have transferred to universal credit by the end of this Parliament, all the arguments we have been having about tax credits in the past few months will no longer be relevant, and the arguments I am making today will be. We will have done a disservice to the people we represent if, in five years’ time, we look back and wonder how we let this Government get away with making such significant cuts with so little scrutiny. These cuts will not be passed unchallenged. The Opposition will be voting against them today.

11.43 am

Chris Stephens (Glasgow South West) (SNP): I shall be brief, because the hon. Lady said a lot of what I wanted to say. The real issue for the Scottish National party is the fact that these changes will disincentivise work. That is our concern. If we are to incentivise work, the work allowance should be increased, not cut.

I have a number of questions for the Minister. What assessment has been made of the effect of the changes on working families and their ability to take on part-time work? Is it not the case that the proposals will disincentivise work and lead to workers reducing their hours? Will there be any mitigation for the effect on their benefits? Has the Minister read the IFS report that says that the measure

“weakens incentives for families to have someone in work”?

Will carers be affected? I am thinking particularly about a qualifying young person with caring responsibilities. Lastly, what assessment will there be of the fact that, as discussed in the Adjournment debate last night, we know that staff at the Department for Work and Pensions are among the lowest paid in the civil service? Will there be a negative impact on those staff?

11.45 am

The Minister for Employment (Priti Patel): It is a pleasure to serve under your chairmanship, Sir Edward. Before I address the points that have been raised, I should say that it is important to remember the fundamental principle of the design of universal credit. It has been designed to transform people’s lives by taking on the highly ambitious task of reforming the welfare system and the labour market, so as ultimately to generate wider economic benefits in excess of £7 billion every year.

The welfare system we inherited from Labour was not working. Welfare spending on people in work rose from £6 billion in 1998 to almost £28 billion in 2010; yet during that time, in-work poverty increased by approximately 20%—that figure is from the statistics on households on below-average income. The Government are quite rightly changing that situation by moving from a low-wage, high-tax society to a high-wage, low-tax one. As a result, more people will be supported by the wages they earn and the benefits they receive. That is better for them as individuals and for the country and the economy as a whole.

Universal credit will remove the barriers that prevent people from finding work by increasing their hours and earnings. The system we inherited made welfare more attractive than work for millions of people. By contrast, universal credit incentivises work, renews personal responsibility and, importantly, rewards positive work choices.

Removing the current requirement in the tax credits system to work 16 hours per week and having a single taper rate of 65% are at the heart of that approach. Those changes will ensure that universal credit reduces gradually as a claimant’s earnings increase, so that they will not lose their benefit all at once if they are on a low income. In addition, universal credit stays with claimants as they move into and progress in work, and increase their earnings. That gives them greater confidence and freedom to take up more work without the worry of additional bureaucracy and form filling that might have occurred if they lost their job or their circumstances changed.

We should make no mistake here: universal credit will make a huge difference in its own right to families up and down the country. Creating those greater incentives to find a job will mean that up to 300,000 more households will be in work and around 3 million households will gain, on average, around £180 per month. The removal of the 16 hour a week threshold is expected to help up to 100,000 additional families, with improved incentives for 700,000 out-of-work lone parents to take their first supported steps into work, something that we should all welcome.

Margaret Greenwood (Wirral West) (Lab): Will the Minister comment on the impact on the under-25s, who do not gain from the new living wage and will be severely affected by these measures?

Priti Patel: There is no doubt at all that universal credit will have a powerful and positive effect on labour market participation. The under-25s will benefit in due course from the increase in the personal allowance, which will mean that they keep more of the money that they earn. Those aged 18 to 21 will benefit from the new schemes that the Government are bringing in to support more work and training, and give help in getting on apprenticeship schemes. The positive choices will be out there for them to gain skills and get their foot closer to the labour market through the support of universal credit as a structure and through our work coaches, who will support them in work and will be of great benefit to them.

We can already see that universal credit is working and is changing lives across the country. It is now available in more than 500 jobcentres nationwide, covering more than 270 local authorities across England, Scotland and Wales, including the constituencies of many hon. Members on the Committee—Dudley North, Glasgow South West, Alyn and Deeside, and Islington South and Finsbury. Opposition Members will welcome the fact that universal credit is helping their constituents to look for work, to enter work more quickly and to earn more money in work.

Universal credit is a transformational system in the way it provides support, breaking down the barriers that prevent people from gaining work. Our network of trained and dedicated work coaches is transforming the relationship that we have with claimants and, importantly, that they, in turn, have with the labour market. We are supporting people from various backgrounds—including, importantly, people with disabilities and health conditions—into work by forging strong partnerships with key employers, ranging from National Grid to Barclays. We also have the Government’s Disability Confident campaign, which puts people at the heart of securing employment opportunities.

Many parents have previously cited, and currently cite, childcare costs as a specific barrier to entering the labour market. Universal credit currently covers up to 70% of eligible childcare costs, but, from April next year, we will increase that to 85%. That will make an enormous difference to people’s lives, with an increase of up to £1,368 per year for every child.

Emily Thornberry: I applaud the right hon. Lady’s cheerful rhetoric in the face of my questions to her. However, is it not right that single parents’ work allowance will be cut? Is it not also right that people without children will have no work allowance at all?

Priti Patel: As I said—I will restate this for the benefit of the Committee—universal credit will support people with no children and others in increasing their working hours. Of course, that is the purpose of universal credit; it is not about having a system that supports people endlessly in receiving allowances. The point is that work incentives have been improved in universal credit, and they are much better and clearer than those in the legacy system. That applies to people of all ages who are on universal credit.

I should emphasise for the Committee that, in looking at not only universal credit, but welfare reforms on the whole, we should be clear that the Government have faced difficult choices in addressing the fiscal position we inherited, and I touched on the welfare legacy we inherited in 2010. The changes to the work allowance should be considered as part of the wider package of support for claimants. Universal credit still provides better support than the current system, including by providing dedicated work coaches who can give advice on job applications and interviews. I would like to think that all Members in the House would welcome that.

Universal credit also supports flexible working by reducing or removing the administrative burdens that existed previously when an individual in or out of work claimed different benefits. I emphasise again that the removal of the 16 hours worked per week threshold allows people to take up jobs for any hours. That, in itself, incentivises people to work more hours.

Margaret Greenwood: The Select Committee report on tax credit cuts also raised concerns about cuts to universal credit and urged the Government to pause before continuing. Why are they pushing ahead with the cuts to universal credit before responding to that report?

Priti Patel: The hon. Lady touched on tax credits, and she will, rightly, have to wait until next week's spending review to hear what else will happen in that particular space. However, I emphasise again for everybody on the Committee, including the hon. Lady, that the incentives to move into work and to increase hours will be strong in universal credit. They are far better than the system of benefits and tax credits that they replace. Moreover, universal credit ensures that those on very low incomes are protected. The Budget changes will also need to be considered as part of the wider Government support that we have put in place for working families, much of which I have touched on. Help can be targeted much more effectively at those who face the biggest barriers to work than through a blanket work allowance for all claimants, and I am sure all Members will agree with that.

Beyond universal credit, the Government have set out a vision for a higher-wage, lower-tax and lower-welfare society. As a first step, we have raised the personal allowance to £11,000 for the next tax year, and we have pledged to increase it again to £12,500 by the end of this Parliament. We have introduced the new national living wage, which will come in next year. As we have stated previously, that is forecast to reach more than £9 by 2020, based on the recommendation from the Low Pay Commission.

We expect many universal credit claimants to respond to these changes by actively seeking more work. We will rightly support them in that. I remind the Committee

that in the current welfare system more than 500,000 people would lose more than 80p for every extra £1 they earned. Virtually no one will face that level of withdrawal rate under universal credit.

Emily Thornberry: I am listening carefully to the hon. Lady but she is just not right. People without children will not have any work allowance at all. They will therefore be losing 65%. When tax and national insurance are added to that, they will be losing more than 70%. Some will work for £1 and get only 30p of it.

Priti Patel: With respect to the hon. Lady, she is wrong, because universal credit will offer real support to people in work. I have touched on the wider package of measures, many of which were announced in the Budget this year by my right hon. Friend the Chancellor. Importantly, not only will universal credit offer support into work, but it will continue to be a vital safety net for the most vulnerable in society.

The package of measures announced in the Budget ensure that welfare will be put on a sustainable footing. We acknowledge that these are wider and difficult decisions but they are the right ones that put work first, restore fairness to the welfare system and the taxpayer, and importantly will continue to provide a safety net for the most vulnerable in society.

11.56 am

Emily Thornberry: We have had no answer on whether people without children would get no work allowance, or whether the Government knew that and are prepared to press on anyway. We do not know the justification for that. We have had no answer regarding the impact on single parents and the fact that the work allowance will be halved for them. We have had no answer on whether the Government knew that or why they did not consult on it. We have had no answer on why the Government have not answered the Select Committee before pressing on. We have had no answer on why there has been no impact assessment.

We have had—and I respect the Minister for it—a great deal of cheerful rhetoric. I do admire the way she presses on and gives such a confident performance in the face of overwhelming evidence. The Opposition will be voting against.

Question put,

The Committee divided: Ayes 10, Noes 7.

Division No. 1]

AYES

Argar, Edward	Opperman, Guy
Fernandes, Suella	Patel, rh Priti
Ghani, Nusrat	Quin, Jeremy
Kwarteng, Kwasi	Rutley, David
Murray, Mrs Sheryll	Tolhurst, Kelly

NOES

Greenwood, Margaret	Stephens, Chris
Hayman, Sue	Tami, Mark
Lynch, Holly	Thornberry, Emily
Smith, Jeff	

Question accordingly agreed to.

Resolved,

That the Committee has considered the Universal Credit (Work Allowance) Amendment Regulations 2015 (S.I. 2015, No. 1649.)

11.58 am

Committee rose.