Universal Credit: supporting self-employment: Government Response to the Committee’s Eleventh Report

Twelfth Special Report of Session 2017–19

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Work and Pensions Committee

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The current staff of the Committee are Anne-Marie Griffiths (Clerk), Katy Stout (Second Clerk), Libby McEnhill (Senior Committee Specialist), Rod McInnes (Committee Specialist), Tom Tyson (Committee Specialist), Ellen Watson (Committee Specialist), Jessica Bridges-Palmer (Senior Media and Policy Officer), Esther Goosey (Senior Committee Assistant), Michelle Garratty (Committee Assistant).

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Appendix: Government Response

1. The Government welcomes the Eleventh Report of Session 2017–19, following the Committee’s inquiry into Universal Credit: supporting self-employment. In that report the Committee noted, inter alia, that:

2. “The intentions underpinning the Department’s new self-employment rules are reasonable and fair. It must now ensure their implementation matches up.”

   - Other points in the Committee’s report summary page, which Government supports include:

   - “Genuine, entrepreneurial self-employment – embodied by the UK’s small business owners and sole traders – has an equally crucial role to play in boosting the UK’s economy and ensuring its future economic dynamism.”

   - “The Department for Work and Pensions (DWP/The Department) rightly wants to support low-paid people to work and progress in work through Universal Credit (UC).”

   - “In doing so for the self-employed, it must balance supporting entrepreneurship with protecting the public purse.”

   - “The Department hopes the MIF will incentivise business owners to increase their earnings and develop their businesses, while ensuring Government does not subsidise unsustainable low-paid self-employment indefinitely.”

   - “Getting this balance right will be a key determinant of the success of Universal Credit.”

   - “The new rules are an ideal opportunity to make use of the “test and learn” philosophy underpinning UC.”

   - “Consistent monthly income is rare amongst the self-employed.”

   - “The Department must ensure it has enough Work Coaches with specialist self-employment expertise.”

   - “Ensuring claimants do not persist with subsidised low-paid self-employment over better options is vital.”

3. The Committee published its report on 10 May 2018, including five recommendations that fall within the remit of the Department for Work and Pensions. The Government’s response to these recommendations is set out below.
Committee Recommendations

Recommendation 1

We recommend the Department commission and publish ongoing evaluation of the effect of the new self-employment rules on Universal Credit claimants. In light of its previous research the first such evaluation should be commissioned when there are sufficient claimant numbers to permit a sample of around 1,000. This research should examine how claimants are responding to the Minimum Income Floor, including whether claimants who have opted to close their business have been successful in finding other work. (Paragraph 11)

4. We agree on the importance of evaluation and have committed to this, including as part of UC’s “test and learn philosophy”, to help rollout UC safely and securely and to inform continuous improvement. This includes ensuring that we are able to gather robust and representative data on whether UC is delivering the intended outcomes, including in respect of those subject to the Minimum Income Floor (MIF) increasing their earnings.

5. We published a number of reports on 8 June, including Understanding the impact of Universal Credit on the Labour Market. This report shows that Universal Credit is expected to deliver improved labour market outcomes by removing financial incentive barriers, improving simplicity and applying additional conditionality for claimants. We are planning to provide an analysis to compare the earnings of self-employed claimants to those previously on tax credits in 2019. We have also planned an assessment of any changes in conditionality groups and incomes for those affected by the MIF. We will undertake a survey to track self-employed claimants to identify changes in labour market activity and changes in behaviour over time. Given the limited number of self-employed claimants on Universal Credit at present and the requirement to track and monitor behaviour over an extended period it is unlikely this information will be available before December 2019. (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/714858/understanding-the-impact-of-universal-credit-on-the-labour-market.pdf)

6. Looking forward, as the Minister for Employment explained in his letter to the Committee of 6 February 2018, plans are already in place for a specific piece of evaluation of the MIF. This will use a variety of information and approaches to provide a broad and cross-cutting evidence base on which decisions can be made around the MIF and the support provided to self-employed claimants. DWP’s evidence strategy will look to identify the interactions between self-employment, paid employment and benefit receipt, together with the factors that informed decisions behind these.

7. However, given that start-up businesses are not subject to the MIF, and that we need to track changes to employment behaviour over at least a year, it will be some time before we can conduct quantitative analysis. To date, the number of gainfully self-employed claimants who have completed the start-up period is very limited. It is expected that in 2019 the Department’s analysts will be able to use administrative records to compare the earnings of the Universal Credit self-employed claimants to those previously or currently on tax credits. Also planned is an assessment of any changes in conditionality groups and incomes for those affected by the MIF.
8. Importantly, although the evaluation is planned, it cannot be undertaken until there are sufficient numbers of self-employed people claiming UC, who are subject to the MIF. Our analysts have two approaches to tracking claimants:

- Multi-waved quantitative studies that will provide evidence around the scale and depth of the issues identified in the earlier qualitative study and will track work/self-employment decisions over time. A minimum of 50,000 self-employed will be required to be in the system (probably around autumn 2018) in order to be able to achieve a robust non-biased sample from across the country in the first wave of the survey. Approximately half of that 50,000 are likely to be gainfully self-employed and therefore eligible for the survey. Our early view is that a sample of around 5,000 claimants responding to the first wave of the survey would be required. The outcomes of these individuals will need to be tracked for around a year before the outcomes can be analysed. It is expected, therefore, that the earliest this evidence will be available will be autumn 2019. This will be published through a commissioned research report, as the Department has already confirmed.

- In your response, you have asked why such a large sample may be needed. A tracking survey involves re-surveying the same cohort multiple times. It is expected – and usually unavoidable – for a significant proportion of respondents to fail to complete subsequent surveys (attrition) after the first wave. The original sample therefore needs to be large enough so that a two- or three-wave survey would yield, in the final wave, a large enough sample from those who responded in the first wave to be statistically robust. Starting a multi-wave survey with only 1,000 responses will result in the sample responding to the final wave being much too small to be statistically valid. We believe that only a tracking survey can answer key questions about how claimants are responding to their MIF, such as whether, and how, their attitude to growing their income changes over time.

- Tracking changes in status using the administrative data on the UC build. This will examine how many self-employed claimants have been subject to the MIF and assess whether they have remained on UC and have changed their employment patterns. This data will be developed over 2018, but again will not provide a robust assessment until at least 2019. When the data has been quality-assured it can be published in the form of Statistical Ad-hoc releases.

9. These timescales are necessary to ensure robust evidence, in accordance with UC’s “test and learn” philosophy.

**Recommendation 2**

We recommend the Department allow reporting periods of up to one year for self-employed claimants who receive irregular monthly pay. The decision on whether to allow a longer reporting period should be made on a case-by-case basis by Jobcentre Plus’s self-employment specialist Work Coaches. It should be based on evidence of need: for example, production of Universal Credit records, invoices or accounts demonstrating irregular or seasonal payment schedules. (Paragraph 25)
10. UC is assessed and paid monthly, so we require all earnings in a household, including self-employed earnings, to be reported monthly, as opposed to annually for Tax Credits.

11. For example, many claimants and households will have earnings from both PAYE and self-employment, and it would be impracticable to assess the monthly Universal Credit award based on earnings reported at different frequencies.

12. Claimants with earnings from self-employment will self-report these at the end of each monthly assessment period, on a single, simplified cash-in cash-out basis, which is closely aligned with HMRC’s simplified cash accounting system. The Department asks self-employed claimants to report the total receipts into the business and the details of payments out of the business under defined categories in the assessment period.

13. Monthly reporting of earnings allows Universal Credit to be adjusted on a monthly basis, which ensures that claimants, whose earnings fall, do not have to wait several months for their Universal Credit to be re-assessed. However, unlike for employees, the application of the MIF’s assumed level of earnings may mean that decreases in actual earnings are not always reflected in a higher payment of Universal Credit.

14. The requirements were designed to be as simple as possible, in order for claimants to easily report their self-employed earnings, and to minimise the burden on business when reporting income to both the Department, for Universal Credit purposes, and Her Majesty’s Revenue and Customs (HMRC), for income tax purposes. And regular record keeping should allow a claimant to better understand how their business is performing.

15. Since late September, in Universal Credit Full Service reporting has moved on-line within the claimant’s UC account, with a telephone option still available where needed.

16. Feedback from internal surveys of users has been very positive: saving claimants’ time and allowing them to report when most convenient for them. This also saves UC agent time which can be deployed elsewhere.

17. As the Committee’s report acknowledges, volatile earnings and expenses are an entirely normal feature for many self-employed people.

18. The Government’s view is therefore that fluctuating earnings are something self-employed UC claimants need to plan for, just as other self-employed earners do. And that monthly reporting is not overly onerous, or unreasonable in return for State support.

**Recommendation 3**

We recommend the Department require Work Coaches, during the Gainful Self-employment test, to discuss with claimants the relationship between tax and Universal Credit. This should include asking if they would like to set up a Budget Payment Plan, signposting towards further information, and if necessary referring them to specialist advice on whether a plan would be appropriate and how to apply. In the longer term, HMRC and DWP should explore how they can harmonise their approaches to collecting data from the self-employed. This might include, for example, exploring how data already submitted to DWP could be used in pre-populating their tax self-assessment forms. (Paragraph 30)
19. Universal Credit has moved to a simple method of on-line monthly reporting for self-employed earnings, using the claimant’s existing UC account. This has had positive feedback from claimants, particularly in respect of the ease and convenience of reporting, at a time of the claimant’s choosing, and with a telephone reporting option still available for those who need additional help. So, at this time, we judge that any benefits from joint reporting with HMRC are likely to be outweighed by adding complexity and risk to the already complex digital reform programmes that HMRC and DWP both are implementing.

20. Through its test and learn approach to the rollout of UC, the Department has recognised that Work Coaches require specific skills and training to help them make the determination of gainful self-employment and to support self-employed claimants. The Department has therefore trained a cadre of Work Coaches with additional skills to enable them to understand the challenges faced by self-employed claimants, and the wide range of expert business support available both nationally and locally, so that they can sign-post claimants to this support and encourage them to take advantage of it.

21. This reflects the Department’s intention to provide a support system which can be tailored to individuals’ needs, including supporting the low-earning self-employed to make better use of this largely Government-funded business support offer. That can include sign-posting claimants to seek expert advice on tax from HMRC or other sources, although we would then rely on those experts to suggest whether a Budget Payment Plan is the best option for a particular claimant. However the claimant decides to pay their tax and National Insurance, those payments can be offset against self-employed earnings in the assessment period in which payment is made.

**Recommendation 4**

We recommend the Department continue to offer specialist support for self-employed claimants earning below the Minimum Income Floor when the current NEA contracts end in 2019. As part of this, it should commit to providing access to specialist mentors with direct experience in their area of work for claimants assessed as having potentially viable businesses who are earning below the Minimum Income Floor. It should also commit to expanding its own internal nucleus of expertise in Jobcentre Plus, ensuring it has sufficient numbers of self-employed Work Coaches to meet the demand for their skills. (Paragraph 35)

22. As we set out above, the Department recognises that providing support to self-employed people requires a degree of specialist knowledge and to this end it is training a cadre of Work Coaches to provide them with additional skills to help them support self-employed claimants.

23. Although specially trained Work Coaches are able to understand the challenges facing self-employed claimants, the Department recognises the value of additional specialist business advice and mentoring. The combination of mentoring and financial support provided by the Department’s New Enterprise Allowance (NEA) Scheme has seen over 113,000 people start their own business between 2011 and 2017. And from April 2017 mentoring support has been available from NEA mentors for people with earnings below their Minimum Income Floor. The Department is currently considering its future self-employment support offer, building on the strengths of the NEA, and evidence from elsewhere, such as the recommendations in the Taylor Report.
24. There is also a diverse range of advice and support available from other sources, including other Government Departments, Devolved Administrations, private and third sector organisations. At a local level, Jobcentre Plus partnership managers work with local organisations to ensure Work Coaches are able to sign-post claimants to the most appropriate sources of local advice and support. At a national level, the Department will continue to work with stakeholders to ensure its offer is coordinated with and complements the offer from other organisations.

**Recommendation 5**

We recommend the Department permit extensions to the Start-up Period of up to three years. This should be accompanied by a tapered introduction of the MIF beginning at the end of year one and rising to the full amount at the end of the extended start-up period. As with extensions to Minimum Income Floor reporting periods, this should be offered on a case-by-case basis. In making the decision, Work Coaches should check for evidence of progression and viability, including achieving expected increases in earnings each year. Work Coaches should then ensure during each reporting period that the claimant is continuing to demonstrate business growth and progress. (Paragraph 44)

25. Those within a year of commencing their self-employment are entitled to a Start-up Period of up to a further year. The one-year Start-up Period, during which MIF does not apply, supports individual claimants and protects the public purse. Claimants in the Start-up Period are exempt from other work search requirements and they receive support from a specially trained Work Coach to help them establish and grow their business. However, as with all aspects of UC support for the self-employed, we will monitor whether the policy is driving the intended behaviour and keep the position under review – drawing on the planned analysis detailed under recommendation 1.

26. Different individuals and businesses will take different periods of time to reach profitability, and many never reach that point. Even where a business does grow to become profitable, that progress is rarely linear or predictable. And neither the welfare system nor the business support offer can shield claimants from all the realities of self-employment, including the likelihood of variable earnings. So the intention of the Start-up Period has never been to match a notional average time taken to grow a business to profitability. Instead, it is intended to give claimants the breathing space they need to work out how to support themselves while growing their business - including identifying other sources of work, income or investment - while not subsidising claimants indefinitely to pursue unsustainable activities. This strikes a sensible balance between support for new business, not trapping claimants in poverty, and protecting public funds.

27. The Committee recommends extending the Start-up Period, and delaying implementation of the claimant’s full MIF-level, in a phased way over up to three years, dependent on evidence of progress. However, this would diminish the incentive effect of the MIF, to encourage claimants to grow their earnings – whether through self-employment, combining that with other work, or moving to one of the over 800,000 current job vacancies. It would also add complexity, with no guarantee of better outcomes for either the claimant or the taxpayer.
28. For those reasons, the Department does not currently believe that this would provide a better balance in supporting potentially viable new businesses, reducing welfare dependency and protecting public funds. Nor does the Department believe that this would currently be the best use of finite resources. Nevertheless, we will monitor and share the evidence on this with the Committee and other stakeholders.