



Select Committee on Economic Affairs

Uncorrected oral evidence: The economics of Universal Credit

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Members present: Lord Forsyth of Drumlean (The Chair); Lord Burns; Viscount Chandos; Lord Fox; Baroness Harding of Winscombe; Lord Livingston of Parkhead; Lord Monks; Lord Skidelsky; Lord Stern of Brentford; Lord Tugendhat.

Evidence Session No. 5

Heard in Public

Questions 31 - 43

Witnesses

I: Rt Hon Sir Iain Duncan Smith MP, former Secretary of State for Work and Pensions; Baroness Stroud, former Special Adviser to the Secretary of State for Work and Pensions; Dr Stephen Brien, former Expert Advisor at the Department for Work and Pensions.

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Examination of witnesses

Sir Iain Duncan Smith MP, Baroness Stroud and Dr Stephen Brien.

Q31 **The Chair:** Welcome to the Committee, Baroness Stroud and Dr Brien. We have had a short discussion. We were hoping that Iain Duncan Smith would be able to join us, but I see that the Division on his amendment is ongoing. Hopefully he can come later, but we thought that we should make a start—and who better to help us with our inquiry than two of the architects of universal credit? Please could you summarise the original objectives of universal credit. Did the DWP consider any alternative models to it? What problems, if any, did you think universal credit would cause?

Baroness Stroud: Thank you so much for welcoming us to the Committee. This is going back a long time, because universal credit was conceived in a piece of work that was done between about 2007 and 2009—the *Dynamic Benefits* report was published in 2009. We had been doing a lot of work in disadvantaged communities and talking to a lot of people about their journey into work and some of the challenges they faced in the transition from the out-of-work state to the in-work state. A number of them said that it was a risky decision for them to take work because of the six benefits and the fact that they were all at different taper rates. If they moved into work, they did not know what they would receive. In particular, they thought that it would put their housing benefit at risk and thereby sometimes their accommodation. That move from out of work to in work was therefore very unstable for many people.

The other issue was work incentives. The old tax credits system had a 16-hour rule and a 30-hour rule, so it paid to work at 16 hours and at 30 hours, but it did not pay to take every hour of work. Let us say a person decided to move into work and had the opportunity to work more hours. Unless their employer could give them 16 or 30 hours, which was very rigid—

The Chair: Sorry to interrupt you. Could we focus on the new system, what you expected of it and how you think it is working?

Baroness Stroud: Yes. The new system was designed to address such issues. It was designed to make the move into work secure and to make sure that every hour of work paid. It was designed also to make the system much simpler. I know that we think that it is complicated for universal credit claimants now, but six benefits with a number of different offices to claim from made things incredibly difficult for claimants. As a result, a number of them never claimed what they were fully entitled to, which was one reason why universal credit was more expensive than the old system.

Universal credit was designed to be a simpler system; it was designed to reward the move into work and progression within work, and to make work the obvious choice. It was designed to incentivise someone as you

or I would be incentivised, so that they would have that, "I've moved into work. Aha, it pays to work". That was the goal of universal credit.

Dr Stephen Brien: Just to pick up on that last comment, there was a definite framing of the relationship between the claimant commitment and the state in the sense that this is not simply about paying out money, but it is actually about a family in a certain situation and a route for them back to work. The conversations and expectations were all framed around how the majority of claimants might find that route back to work. That behaviour change was at the core of it.

The Chair: So, what happens? We have had pretty overwhelming evidence that the people who have benefited least and suffered most are those who are long-term sick or disabled—some of the most vulnerable people in society. Not everyone is capable of work. The evidence that we are getting is that the emphasis on the work test and the nature of their position have put them in a very disadvantaged position. How would you respond to that?

Dr Stephen Brien: For a large system that was going to engage in a relationship with about 7 million people at any point, we needed to make sure that the arrangements worked for the core or majority group. We also recognised that, as you rightly identified, there are many groups who are weaker and more vulnerable and of whom there is less of an expectation to get back into work. In the early days, there was a plan for universal support—a whole system of networks with local authorities and others—to address that. There was also a set of arrangements for telephone and in-jobcentre applications, so that those who would not be able immediately to use the IT system were given the support they needed. That was very much part of the original plan.

The Chair: But it has not happened.

Dr Stephen Brien: Not to enough of an extent, no.

The Chair: Do you think that the system has not been the success that you hoped it would be because that has not happened?

Dr Stephen Brien: There are many elements of the original design that I wish we had been able to go through with to provide that extra level of support.

The Chair: Would you like to elaborate on that?

Dr Stephen Brien: In terms of the user experience of claiming, it is having a multi-channel approach and greater support for the most vulnerable claimants. That would be issue No. 1. Many of the issues with universal credit that come to people's attention are edge cases. There are a lot of them—by the way, there were many more in the old system. Where would I go today? I would focus on addressing those edge cases so that the core experience works for as many people as possible.

Baroness Stroud: I want to pick up on the universal support element. Universal credit and universal support were supposed to go hand in hand. As you walked through the door of a jobcentre to claim universal credit, your work coach was supposed to work with you to identify whether you had a housing vulnerability, a family vulnerability or a debt vulnerability and therefore to build in the appropriate level of support for you. We have seen elements of that coming back. When Esther McVey was Secretary of State, she brought back some debt support. Universal support was meant to offer extensive on-the-ground support for universal credit claimants.

Q32 **Lord Fox:** I have two questions. Why do you think that universal support was done away with, so to speak? Without that, is the design that you had for universal credit no longer the system that you had in mind—in other words, it has been taken and turned into something else?

Baroness Stroud: The universal credit was basically designed to be: “I move into work, work pays. I progress in work, it is rewarded”.

Lord Fox: Yes, I get that.

Baroness Stroud: It is a mechanism. The old system did not have extensive support around it. We wanted universal credit to be the big social justice reform of its generation. Therefore, we wanted it to have—

Lord Fox: But without the support, it is not that.

Baroness Stroud: Without the support, it is just a benefits system. We wanted it to be more than just a benefits system.

Lord Fox: So what caused the support to be dropped or never implemented, in your view?

Baroness Stroud: These reforms were happening in the heart of an age of austerity. If you go back to the timing, they were happening under serious budget constraints. Therefore, that part of it was never really developed out and created.

The Chair: Just to translate that, George Osborne would not let you have the money.

Baroness Stroud: There were well-documented discussions between the DWP and the Treasury at that time.

The Chair: Yes. So what was the gap?

Baroness Stroud: This was a while back now and I do not have those numbers in my mind. But that was only part of the gap. There were other gaps, as you know, with money taken out of the original budget for universal credit.

Dr Stephen Brien: Can I bring up one other aspect? We are also looking at a system in transition. The old system had a set of mature rules. The behaviours and the practices on the ground, whether in jobcentres or

other points of administration, were based at this stage on decades of experience of how the rules as formerly applied worked or did not work for claimants. At the point at which you establish a new system, you start with the rules and there is an immediate effort to apply those rules as written down.

We are also discovering that, where those rules and practice need to have a bit more maturity and amelioration, there was in that legacy system a huge amount of amelioration of the rules, which made life easier for everybody—the claimants and the officials. For example, the rules to report changes of income were disregarded enormously, because everybody knew that for housing benefit it would be impractical to have everybody reporting every slight change in weekly pay et cetera. You bring in a new system and—this is a generic comment about any transition—you start with a set of rules, and lots of issues pop up which the old system appears not to have. The old system had them, but there is practice and there are rules. At one level, at this point we are comparing rules with practice.

The Chair: You mean that the old system was able to treat people according to their circumstances and exercise discretion.

Dr Stephen Brien: The old system of rules and established practice over decades was able to do that. The universal support was a helpful way of allowing that practice to get accelerated—by having competent, skilled people spot all those issues and work them into the working of the system.

Q33 **Lord Monks:** In the evidence that has been submitted to the Committee, we have received cries of help and despair, frankly, about the arrangements that have been made for some people—not everybody, but an awful lot of people. We have heard claims that, for example, food banks have doubled in number. I am not saying that is because of the change that has taken place, but it has coincided with it. We have heard about rent arrears building up, which is perhaps more directly related to universal credit.

I just want to know what you think about those cries of help. What ideas do you have, as experts in the design of the scheme, to get over those problems? What can we do to make it more acceptable so that there is not so much outrage about the way it is working?

Dr Stephen Brien: Let me take both of those. The food bank issue is to a great extent also related to levels of inherited debt that people have in the system. When people join universal credit with a history of being on working tax credits or tax credits and have debt associated with that, which was slow to start being repaid, that is transferred over to universal credit and people start their lives on universal credit in debt—that is often a surprise to them—with a repayments schedule that creates challenges, particularly if it has not been anticipated.

Certainly one thing that could be done is adopting a much more compassionate approach to handling that debt issue. The IfG came out

with a report recently suggesting an amnesty. Amnesty may not be the right answer, but there is definitely a need to look into helping people manage that transition, which comes as a shock to them.

The Chair: Why is an amnesty not the right answer? This money is never going to be paid.

Dr Stephen Brien: I said that it may not be. I do not have a particular view on the specific approach of handling the debt. I am sure there are people across the road in the Treasury who may have arguments against an amnesty.

Baroness Stroud: I think we would highly recommend an amnesty.

Dr Stephen Brien: On housing, the original intention was to create a system that allowed the transition to work to be as smooth as possible. Philippa mentioned the 16-hour and 30-hour rule. One of the quirks of the old system was that, as people received tax credits, their housing benefit was tapered away. Because of the immediate uptake in payments from the tax credits system, most people found that if they went from being below 16 hours to above or below 30 hours their housing benefit was in effect stopped because of the way in which the tapering system worked. So for most people housing benefit was in effect an out-of-work benefit, although there was a notional tapering.

As we wanted to create a smoother tapering, we had to have a vehicle whereby housing benefit could be paid in part to a greater number of people, in effect through universal credit. Therefore, we wanted to make sure that there was no cut-off where people one day had their rent paid and another day had no rent paid because the notional housing component had disappeared.

Our view was that we would set it up so that, for the vast majority of people who are working and would normally be paying their rent directly, that would be the base on which universal credit was paid. At the same time, back in the early days—2010, 2011 and 2012—we spent quite a bit of time with the banks discussing potential options for adjusting the right of set-off, so that universal credit would not be set off against overdrafts, and potentially looking at ways in which we could get a priority payment to landlords so that some of these issues could be taken care of through the payments system.

There is an opportunity to think about universal credit as a core that pays an income to the family just as a salary would. We were seeking to wrap around that a payments system that would allow people to make choices about how that money flowed. As with a standing order or a direct debit, you could in effect divert a portion of that money to pay the rent, but you were also in control of it.

Lord Monks: I am not sure that I followed all the ins and outs of that last section about what you would do, but it is welcome that you are reflecting on some of the weaknesses. That is one weakness.

What other weaknesses do you think need to be addressed urgently before this thing is rolled out even further?

Dr Stephen Brien: I would also look at the time it takes to get the first payments. It is good to see that a six-week delay has gone down to five. I would encourage looking at ways in which that could be brought down even further.

The Chair: To?

Dr Stephen Brien: There are two steps to this. If you are working on a monthly assessment and monthly payment, it is important to keep an eye on both assessment periods and payments periods. That is one way. If you are on a monthly cycle, there is very little reason why, technically, we could not arrange the payments pretty well straight after the end of that monthly cycle.

There is another question around the payment and assessment cycle. We put "monthly" in as our starting point because it reflected the majority of employments. I think you will want to bring up a point about the balance between higher and lower earners when it comes to the frequency of their payments. There is a good option—I have shared this with DWP and No. 10—to create a fortnightly assessment and payments system that can address the fact that, if you simply did it naively, those who were paid monthly would get very lumpy UC, but there are ways in which you can deal with that. It would be well worth while exploring moving the default to being a fortnightly payment in arrears with a fortnightly assessment.

Baroness Stroud: We have talked about having a debt amnesty. We have also talked briefly about the payment frequency. When universal credit was being designed, it was done so on the basis of how the majority of people are paid, which is monthly. However, we know that numbers of people on low incomes are also paid fortnightly or weekly.

The Chair: Or even daily.

Baroness Stroud: I do not know whether universal credit has the flexibility to go daily. If the purpose of universal credit is to align with work, the ability to align the frequency of payment of the universal credit with the frequency of your salary as you are getting it would be an appropriate change to make.

I would like to add another couple of points. Universal credit has become synonymous with the cuts to the individual benefits that went into it. They came through with greater savings in universal credit than there had been in the legacy system. This has become very confusing to people. Universal credit has become synonymous with a reduced income for people. I have been advocating for an unwinding of the freeze on welfare as well as the restoration of the money that was taken out of the earnings disregards. That should go back in, which was part of the big 2016 reforms that happened.

Secondly, while I was at the DWP I fought pretty hard for this, as I was always convinced that it should happen: if we have conditionality on a lone parent and are saying, "You should go out to work", the childcare that they are entitled to should be at the full amount, tapered, for each of their children. At the moment it is at 85% for two children only. This is particularly challenging given that the tax-free childcare available outside universal credit is available for all children. These are points that could be returned to and looked at again. They would have such an easing impact for people who are on universal credit. These are some of the recommendations that I would add in to ameliorate.

Baroness Harding of Winscombe: You have said a couple of times that the objectives were to align the benefits system with work, and that the objective was to design the system based on the majority. What is quite stark in what you have said there is that there seems to be no objective to provide a genuine safety net for the most vulnerable in society. How did you think about the role that universal credit needs to play in that ultimate safety net for the most vulnerable, rather than the two objectives that you have described?

Baroness Stroud: That is a very helpful question, thank you. One of the challenges was that universal credit brings together an in-work system, the tax credit system, and an out-of-work system. The people who had been on the tax credit system did not view themselves as being on welfare. These were people who were independently employed and then received tax credits. That is a very different group of people from those who had been in an out-of-work welfare-dependent state. If we roll the clocks back at this point in time, there was 8% unemployment in 2010 when we came in. It was a considerably different and much bigger group of people who were unemployed. That said—although we were not talking about this, we were talking about it mirroring work just a few minutes ago—a huge amount of work was done in the department on vulnerable claimants. There were just extraordinary levels of workstreams that took place. This was very much in the coalition years, and we worked across the coalition with Nick Clegg and his team and with David Cameron and No. 10. Vulnerable claimants and how they would manage were very much at the forefront of people's minds.

The Chair: They might have been in the forefront of your minds, but they seem to have been left behind.

Baroness Stroud: One of the things that the DWP focused on was who is vulnerable in terms of claiming or using the universal credit system. For example, many people who are disabled are very able to use the universal credit system, so in terms of their ability to navigate around the system that was not an obstacle to them. We were looking at who was vulnerable in relation to the usability of a new universal credit system. As I said before, some of the challenges to universal credit are not from the architecture of universal credit but from the fact that benefits were reduced as people came into universal credit, as some of the savings

were made. That is a different dynamic from the architecture of universal credit.

Lord Stern of Brentford: But the overall levels of resources available to universal credit going down will in principle influence the average outcomes. We have been hearing that particular groups in the population have done very badly—the poorest, people who are mentally ill, the disabled and so on. So this story that there were hard times and the whole level came down does not really pick up why it is that some people seem to have done so badly.

Dr Stephen Brien: I will try to unpack some of the things that have been going on. The overall level of financial support in terms of the level of the universal credit reward and the level of reward for some kind of work under the old system was designed to be the same. So the core financial support for the people who are most vulnerable and out of work was actually the same, subject to one proviso: the issue of how debt was being handled. If you are saying that the experience of the process of the administration of universal credit is more difficult for vulnerable claimants, that is one interesting argument. Philippa has explained the efforts put in place to make that work and, to the extent that there is only one benefit to apply for—

Lord Stern of Brentford: We have heard from witnesses that that has not happened. There may have been an effort to design for that—you were there, of course, so you know—but we have been hearing evidence on the outcomes.

Baroness Stroud: It would be interesting to take some of the stories that we are hearing now to do with universal credit and put them next to all the evidence that we took of the legacy system, where we had similar claimants saying to us, “We find it overwhelming to negotiate with members of different offices. We are losing our housing benefit. There is this awful and, frankly, clawback system within tax credits. You get to the end of the year and suddenly you’re in debt and have to pay back your tax credits”. The one thing that we always had to bear in mind is that this is often a very vulnerable group of people. That is very difficult for any welfare system, which is why you need the personal interface. The only way in which any welfare system, whether that is the legacy system or universal credit, can really interact effectively with vulnerable people is when it is delivered through a person who is committed to the well-being of vulnerable people. At the end of the day, every system is a blunt instrument.

Lord Stern of Brentford: I hope we understand that, but I shall go on to another question.

The Chair: Perhaps I could just welcome Sir Iain Duncan Smith to the Committee. We very much appreciate you coming. We know that you had an amendment on the Floor of the other place. We have just been discussing the design of universal credit and whether it has worked out as intended. The suggestion is that aspects of it have been changed from

what was intended because of the Treasury's need to find savings, and that there were other aspects, including the debt, that have made for hardship for a number of groups. Lord Stern was just about to ask our next question.

Q34 Lord Stern of Brentford: I take your point about counterfactuals. It is important to try to build those into an analysis, but we were hearing from people who had looked carefully at the evidence and said that, relative to what came before, these particular groups—the poorest, the mentally ill, the disabled and so on, and to some extent children—had been hit the hardest. They were making that relative statement over time, comparing what happened with what now happens. I want to be clear, even though I take your point about the counterfactuals. My question is about take-up. If we understand it, part of the intention of simplification was to improve take-up. I appreciate that it is hard to measure take-up in the new system, but that was a key criterion. Are we in a position to know whether that target, that goal, has been achieved relative to the old system? I appreciate that take-ups were different across different parts of it, but some of the take-up rates were 90% or more in the old system. Is there any evidence that universal credit is anything like 90%?

Dr Stephen Brien: You are talking to a group of people who are no longer in the system or have access to those specific details.

Lord Stern of Brentford: I am asking whether the goals you built in have been achieved.

Dr Stephen Brien: Our goal was that a simpler system would be more accessible and would have higher levels of take-up. As we were then undertaking our financial modelling we certainly took that into account. The main thing that we felt would make a difference was that, by applying for a single benefit, the entitlement to all components of it would be automatic. Rather than saying, "I've applied for JSA, I may or may not be entitled to housing benefit, I've got to go round the corner and apply somewhere else", once your personal details are put in, the entirety of one's entitlement is automatic. The main issue that we felt was going to make a difference was that the low levels of take-up of the secondary benefits would match the higher levels of take-up of the primary benefits, because most people would be starting with their primary benefit and they would automatically, in effect, be passported to the other elements. That was the way in which we looked at it. I see no reason to presume that that is not the case, because people who are out of work who, in a past life, might have gone to seek JSA will be applying to universal credit now and will be automatically assessed for their housing and other entitlements.

Lord Stern of Brentford: But that is an ex ante argument; it is not an argument based on the empirical evidence, is it?

Dr Stephen Brien: As I said, you are not talking to the people who can give you the up-to-date, empirical evidence.

Sir Iain Duncan Smith MP: First, my apologies for being delayed. I was moving an amendment and we had a vote. I got here as quickly as I could. You have to bear in mind that it depends what you are comparing with. Timmins's Institute for Government report is quite good about this. He points out that you cannot compare back to previous circumstances because we had a higher level of unemployment and a very low level of activity in work. Now we have the exact opposite—we have a literally record level of employment. The idea would be that everybody who was once on JSA will suddenly move across to universal credit when many of them have gone back into work, partly as a result of UC, and are out of the system, unless they were involved in other elements bound into that process. Comparisons like that are peculiar and difficult to make. Timmins makes that point.

The second thing I would simply say it is that there is no question in my mind but that universal credit is better than the benefits that went before, either together or singly. This again is backed up by Mr Timmins, who says that it is a better benefit, as the IFS has said quite categorically. That is not to say that there are not some changes that continue to be made and notwithstanding the fact that, as I made very clear, I resigned over the fact that the Government withdrew money when we were trying to roll it out, which was a big mistake. The Government have now sought to put most of that money back, but there is still some more to go.

On take-up, you are going to get a better a level of take-up because not everybody in it was always in the individual benefits before, because they did not collate together to see what that take-up would be. Is it progressing in the right way? Yes. At the moment, the reason why the beginning of the test rollout has been extended for nine months before they move people across is because the numbers expected previously, which would have flown across automatically from things like tax credits, have fallen quite dramatically—about 100,000 a month now. That is simply because there are more people in work than there were before. The comparisons cannot be made quite directly, but I have talked to the DWP and I think that this report gets it clear. It is more functional than the others and it is ultimately easier to understand, although there will always be some groups that struggle. That is how you can use the flexibilities.

Lord Stern of Brentford: I understand the point, but we have cycled back to the ex ante argument again: in principle it should have worked like this. We have been hearing that there are important groups of people—the poorest, the mentally ill and the disabled, for example—who appear to have done worse as a result of this. We are trying to get to the bottom of the reasons for that.

Sir Iain Duncan Smith MP: But have they done worse? This is the question that I keep coming back to. There are two things that I would say quite strongly to the Committee that I say again and again. Tax credits and all the others did not have this pressure on them when they

were launched. They were not weaponised by the then Opposition. What we have genuinely seen, which has not helped—and the DWP would tell you this—is that there are problems with people who would naturally want to come across who are actually being frightened by what they expect to be their experience before coming across. This has an effect on those who should be in, because they would be better off. There is more money in it for those with disabilities. I think the figure is that universal credit pays out £2 billion a year more than the collective of the other benefits that are now incorporated. The reality for us is that there are circumstances here that I abhor, in the sense that using those most vulnerable as a way to stir up an argument is not the right way to go. Most of those who really look at this, from the IFS through to the Institute for Government and others, including Joseph Rowntree, will say that changes need to be made, but they are policy positions, not the structure. The reality is that this benefit is better than the other benefits that have gone before.

The Chair: What do you think are the policy changes that need to be made?

Sir Iain Duncan Smith MP: Well, I do not know what my colleagues have said, but I would say categorically that the No. 1 thing I would do is get rid of the debt that is coming across unnecessarily from tax credits. I asked the DWP the other day what is the No. 1 thing it is concerned about. It relates to the fact that HMRC has been unable to get this debt back. The reality is that it decided—I am afraid that I had to cave in on this eventually, because I was under pressure across the board—that the debt it was not able to get back, which I think is something around £6 billion, has been moved across on to universal credit as people come across.

Universal credit was always set up to be an efficient way of stopping increasing debt and then retrieving it, but that was at lower levels. Bearing in mind that at one stage up to £25,000 was accepted as a debt position before you even got real problems from tax credits authorities, the reality is that they now immediately face a withdrawal. That is a really big way of saying “I don’t want to move across, because if I move across I know exactly what will happen”, notwithstanding the fact they will get more money.

First, HMRC should retain that debt and decide what it is going to do with it. I would also argue that it is slightly off balance sheet, because it is not audited. This debt position is not the same as it would be if it was sitting in the DWP. Secondly, we need to get one argument completely right: there is flexibility to pay people in two weeks or one month. The only thing that is agreed by all is that the assessment period has to be within those four weeks, because that is where you assess all the various elements coming in at different levels. It is a policy position for a Government to decide how they then pay out. There are flexibilities in this; the idea that there are not is absolutely not the case. You asked me

the No. 1 thing I would do, Lord Chairman. The No. 1 thing I would do is to stop that debt coming across.

The Chair: Is there a No. 2?

Sir Iain Duncan Smith MP: I would like to get back to the full four weeks of assessment period, not the five weeks they are at at the moment. I am certainly opposed to the six weeks, and I think that is necessary. The third element I would like to see properly rolled out and implemented, which David and I have discussed at great length, is a thing called universal support—I do not know whether you have talked about this.

Universal credit is not just a benefit payment system like the others were; it is deliberately set to figure out who struggles. Once you have that information, you want to put their conditions right rather than just park them where they run up debt. This was meant to be run along outside; we were going to test this so that, as you find people in a problem area, you work with local government and local charities, et cetera, and move them across on to this process—debt relief, drugs, all these other bits and pieces—so that they can then be stabilised before moving back through the process as it was. That bit alongside would make a huge difference, I believe.

The Chair: Sir Iain, the evidence we have heard is that that is not happening.

Sir Iain Duncan Smith MP: It is not; it has been tested in a couple of places but has not been rolled out. It needs more money to do that.

Viscount Chandos: When Professor John Hills gave evidence to us a couple of weeks ago, he highlighted two particular factors in moving to a universal system that had perhaps been underestimated. One was the stigma attached to benefit as opposed to tax credits; people who were uncomfortable with that stigma and then chose which benefit/tax credit they were going to claim on have found the universal system, as it were, more stigmatising. The other was the all-eggs-in-one basket; if there is a glitch, all their income is delayed or threatened. How do you respond to those two issues?

Sir Iain Duncan Smith MP: A quick point and then I will let the others get to the detail of it. First, universal credit has the highest approval ratings of any benefit that has been rolled out. It is ahead of jobseeker's allowance and tax credits by a long way. The vast majority of people who go on to it do not have that problem of stigma. The word "benefit", by the way, does not occur within the title, which is a deliberate choice. We have incorporated the "credit" bit so that people do not see it as a benefit but as a movement through and into work. We have maximised the work process, but that is reasonable because we were trying to achieve more people going back to work, and to that extent it has succeeded.

On the delays, the one area that is stronger in universal credit and not so strong in the others was the requirement for identification. There is a reason for this; tax credits had a huge number of problems when they were rolled out—there were all sorts of fake claims going through, and the flexibility they allowed let money pour out of the door, which is one of the reasons they have such high levels of debt that they are trying to transfer across on to universal credit.

That is a change, but the rest of this is about making sure that they have one process to go through. There is flexibility in the job centres to help them with that through computerisation; they even produce paper claims which they can use. That was originally bound into the system. The No. 1 thing we have done which they did not do with the launch of these other benefits was to deliberately do a test and learn process. Every time they roll it out to a group and figure out that there are some systematic problems, they set about changing them to make this work. That is going on right now.

Q35 Baroness Harding of Winscombe: Can I ask you about some of the systematic issues that we have heard about in the monthly assessment period? Whether it is the impact of four-weekly payment cycles for most of our large employers, which mean that a monthly assessment period gives very unstable payments, or the rise of zero-hours contracts and insecure work, they all appear to mean that the monthly assessment period leads to very unpredictable incomes and reduces people's sense of security.

Dr Stephen Brien: These are all issues that we wrestled with at the very beginning. To pick up on Sir Iain's comment, we had to get the system of assessments to work for the majority of people in a stable and safe way. That meant asking what the maximum cycle of payments was; if people were paid monthly and we were assessing every fortnight, as I said earlier in a naive way, you might give people full entitlement one fortnight and then find the next fortnight that they have earned money and that we have ended up retrospectively giving them too much the previous fortnight. There was a sense in which we had to get that envelope of assessment to capture the vast majority of cycles.

At this stage, in light of the work Lord Freud and I did on how we deal with bigger irregular earners such as farmers or seasonal workers, there is now a way in which we could safely shorten the assessment period and work on a carryover system such that we can in theory, to pick up on Lord Forsyth's comment, do it on a daily basis, just as interest is calculated daily on a bank account. My view is that there is a technical solution to that. I have shared that with DWP and No. 10 because I believe it is well worth exploring.

Can it be done immediately? Undoubtedly not, because of the IT developments that would have to be associated with it, but I would certainly—as I did earlier—enumerate that as one of my recommended changes to the system to explore.

Baroness Harding of Winscombe: We received evidence from the Joseph Rowntree Foundation claiming that the monthly assessment period and payment in arrears was “founded on a misunderstanding of the bottom end of the labour market”. Do you agree?

Sir Iain Duncan Smith MP: Can I pick up on some figures here, which are quite important? I do not fully agree with that, because while there are difficulties it is worth reminding ourselves that 75% of people in the economy are paid monthly. For those eligible for tax credits and UC it is nearly 60%. What is really important is that only 12%—literally only 3% of that group are paid fortnightly and 28% are paid weekly. Straight away, the idea that there is a block of people who are suddenly incapable—

Lord Livingston of Parkhead: What was the figure for four-weekly payments you mentioned there?

Sir Iain Duncan Smith MP: The 12% are four-weekly. What we were trying to do with universal credit—perhaps I will be backed up on this—is to say that the vast majority of people who fall unemployed will stay unemployed for a reasonably short period of time. About 70% are back within five to six months; another two months on it is up to about 90%. The vast majority go into unemployment and come back out. In the short period they are in, they have to change everything they do to go down in the old systems to a fortnightly payment and then go back up to what will almost certainly be a monthly payment. The system should look at getting the majority of people through it quickly and easily without having to spend their time sorting themselves out when they should be looking for another job.

Then you are left with those who struggle with this, and the question is how you build in the flexibilities. In truth, on the payments set-up, as I was saying to the DWP the other day, it is wholly feasible, as they have done in Scotland, to have adjusted payments if necessary. That is not the problem; how you do that is just a policy issue.

The question is how many people suit that. We hear a lot about zero-hours contracts, but the truth is that those on them represent a very small proportion of those in work—between 3% and 6%. The reality is that, for that trade-off and with the monthly checks, at the end of the year you do not have the problem they used to have with tax credits. I can promise you that I used to have a lot of people at the end of every financial year coming into my surgery and telling me that they had just been told they owed £5,000, £6,000, maybe £7,000 that year, because they had failed to notify the tax credits authorities that their income had shifted, because they were essentially paid on a weekly moving basis or whatever.

Now, that does not happen to them, which is a relief for lots of people who were trapped in this. I honestly promise you that it has been forgotten completely that people on tax credits had a real problem with this whole position of debt which they piled up directly.

Nothing is perfect in these systems, but UC is capable of flexibility. These are policy decisions that can be made by the Government.

Baroness Harding of Winscombe: Why was this flexibility not built in at the beginning? It is not news that people at the real bottom end of society have far more itinerant lives and much less predictable flows of income. Nothing has changed so fundamentally in the last 10 years for that to be new. Why did you not build the flexibility in right at the beginning?

Sir Iain Duncan Smith MP: Flexibility has always been in the system.

Baroness Harding of Winscombe: But the system cannot do it. If I am paid—

Sir Iain Duncan Smith MP: The system can do it.

Baroness Harding of Winscombe: If I am paid fortnightly, weekly or four-weekly, or if I have very unpredictable earnings, the monthly assessment process will mean that I will go some months where my universal credit disappears completely and then bounces back.

Dr Stephen Brien: There are two parts to this that are worth differentiating. One is that the actual design itself was deliberately set up in response to that situation. The system design, from both a policy and an operational point of view, said, "Earnings will fluctuate. We need to record earnings frequently"—in fact, from an RTI point of view there were daily reports going to the DWP about the earnings reports—"so by the end of every month we have captured the full extent of your earnings that month, and then in effect the system works out what you have not earned and hence what your universal credit entitlement is." It was deliberately designed to be very flexible. If one month your earnings dropped down to zero, you would get your full entitlement; if the next month you got a part-time job then your earnings would get tapered slightly; the next month you get more, and your earnings would go down again. From a policy point of view, we designed in such flexibility from the beginning.

I would like to bring up one other point that I think is very pertinent. That system is reliant on receiving accurate and timely information from HMRC about RTI payments. That is an issue that is well worth exploring as a challenge to the system. If RTI payments come in late—and that is what is happening; you might have read newspaper reports in the last few days about it—or are not properly identified with the employee, and it takes the DWP a while to do its pattern-matching and work it out, there is then a risk, and indeed this risk materialises, that people's assessments in the first months are in effect for too much universal credit because their income was not recognised. That is all fine, but the next month, to go to your point, two earnings are recognised and the amount comes down. Again, that is a shock to people. That is not a policy issue but an operational issue.

Baroness Harding of Winscombe: Except it is, if you are on four-

weekly payments. We had evidence from USDAW representing workers in a lot of retail businesses who are all paid on four-weekly cycles, so they are getting 13 payments a year, which means that for two months a year their universal credit disappears. That is a structural flaw in the system.

Dr Stephen Brien: Personally, I have given you my proposed solution to that, and I fully recognise that. However, in a world where you can be paid daily, weekly, fortnightly, four-weekly and monthly, a rigid system is not going to work to compensate. If we sort it out for a four-weekly payment then we have a problem monthly. If we sort it out for fortnightly, we might have a problem. That is why I believe that this area is absolutely worth working on; I have no disagreement with you about that. However, I would also say that that is dependent on getting the RTI system working. At the moment employers are not required to validate their payments, and there are still plenty of records coming through without national insurance numbers or the hashing system that was originally set up for RTI. So a bit of work needs to be done with HMRC to make sure that employers are recording on time and the right values.

The Chair: Where do the self-employed feature, then?

Dr Stephen Brien: They are in the system as well.

The Chair: Yes, but if they have variable income—

Sir Iain Duncan Smith MP: Variable income is captured within the process. They will still have their payment structures and they also have to be assumed to have a certain type of income.

The Chair: Exactly. They are assumed to have a certain type of income.

Dr Stephen Brien: As the minimum income floor, yes.

Sir Iain Duncan Smith MP: Otherwise they cannot be self-employed.

Dr Stephen Brien: Those who are above that can report fluctuating earnings, and then UC will accommodate that. The whole point about the way in which universal credit is set up is to focus on making sure that the household's net earnings are as stable as possible. That is the most important thing for the household.

Q36 **Lord Fox:** Before you came in, Sir Iain, Dr Brien said there was an issue that the legacy benefits had all been arrived at through practice. There was a series of practices that the administrators had in order to help people and make things easier for them, whereas the new system was applied to the letter of the rule. That seems to fly in the face of some of what we have heard, which is that there is apparently flexibility. Is it that this is being applied wrong and in fact there is sufficient leeway in the system to deal with all the classes of people that we have talked about—not those in work but those on the edge, who you have talked about? Is there sufficient leeway in the system or is there not? If there is, who is responsible for not applying it?

Sir Iain Duncan Smith MP: The whole point is that this has been rolled out in a way that no other benefit has been. Tax credits were rolled out almost literally overnight, for example, and what happened was that nearly a million people failed to get any payments and crashed into significant levels of debt. Literally, it was a case of "System ready. Press the button" and it did not work. UC has deliberately been on this test-and-learn process, and that is the whole point about it. As they have rolled out sections of this, the idea was, and it happens, that the two sides sit together—the operational staff and the guys on the system—and talk to each other at every stage about what the problem is. If they see a problem, they ask, "Now, is this a systematic problem, a problem with the software or a problem of practice, either in the jobcentres or in the rules?" That is the key bit. They make a decision eventually, and if they think the problem is systematic then we need to change that. That is how it has been moving all along. The UC that is now here is varied from the system that started rolling out because once it meets clients, what happens with the client then influences how they make modifications. As I said earlier, it is infinitely more flexible than tax credits.

Lord Fox: We understand that, but do you accept that there is still a significant minority of people, the people on the edge, whose lives are being made terrible as a result of not getting the benefits that they should?

Sir Iain Duncan Smith MP: I do not accept that there is some incredible group of people out there who have been missed out. What I accept is that as with any benefit, particularly when you are talking about getting paid, there will always be people who struggle with that system. The question is how flexible you can be so that when they struggle you ask, first, is that problem individual or is it systematic, and, secondly, can they be relieved of that? Hence earlier payments can be made to them, and jobcentre staff are licensed to do that straight away. Jobcentre staff now spend a lot of time—if you watch the BBC programme, you can see this at work—ensuring that individuals get their claim right, because the one area that does cause a bit of a problem is that they have to have all their documents and bits and pieces ready at the time of the claim, whereas with other benefits they might perhaps have done one bit here and one bit there but they did not have to identify themselves in quite the same way. So jobcentre staff work on that with them now and a lot of work goes into it.

I am not saying for one moment that there is nothing that could not be changed; quite the contrary, the whole point was that the design of this was set up so that you can flex the system and make those changes. A good example is that when in Scotland they decided that they wanted to take on the running of universal credit, they wanted to make payments at two weeks. About a third of their payments are made at two weeks, and about 2% of UC payments nationally are made up to two weeks because the demand is not greater than that. So the flexibility is there; otherwise, we would not be able to take these slightly different positions. I am simply saying—

The Chair: Why is the demand in Scotland 15 times higher than in the rest of the country?

Sir Iain Duncan Smith MP: Because they set out as a policy to pay it at two weeks. That is the point. But when you do not have it as a policy, the point is that it falls all the way back down again.

The Chair: They set that as a policy because they thought there was a need.

Sir Iain Duncan Smith MP: They decided that that was what they wanted to do. All I am saying is that that can be accommodated within the system if people want to do it. As it is now, anyone who needs a two-weekly payment can have one. The one thing that both Scotland and the rest of the UK do is that they have to have the monthly assessment. That is the point. So even off the back of a two-week payment, the monthly assessment has to happen because it incorporates all the others.

Q37 **Lord Burns:** We have been trying to distinguish between the design of the system, the challenges of implementation and the extent of funding or underfunding. Several elements that we have regarded as being in the design of the system are coming through in your responses in what you are describing as policy, and I am not quite sure if that is design or limitation. The issues of five weeks; payment in arrears; one or two children and the handling of childcare; the fact that digital skills are needed; the handling of couples and the question of who receives it—we have tended to think of those as being issues of design.

What we have gathered from your responses is that you regard these as issues of implementation. I want to go on from that to say that one of the other things we have been particularly concerned about is the treatment of housing costs and rolling it into the one policy. There is evidence that the result of that is that there are now much greater levels of arrears than there were previously. It gets caught up with many other things that make people feel that they have less security in their housing. I have two questions. The first is about what we are classifying as design and as implementation. Secondly, how does this apply in the case of how housing costs are working: what are the reasons for it being in, where do you think the weaknesses are with it, and why have we seen both the build-up of arrears and a lot of houses where landlords are insisting that they will not take people who are subject to the system and in the universal credit regime?

Dr Stephen Brien: On the original design and the architecture, if we are saying the design is the more fundamental thing, having a single benefit and a single payment was the basis of the reform.

Lord Burns: It is a sort of headline ambition.

Dr Stephen Brien: Yes, that is the headline piece. Why is that necessary? If you had housing, which can be a major component of anybody's benefit income, as a separate benefit from the other payment it would need to get tapered at some point. That would defeat the

purpose of having a single identifiable and hopefully not too severe taper rate. We have to make sure that the assessment and the entitlement have integrity, which is basically one payment—one entitlement, one assessment, one calculation and one value.

A second issue is the process of payment and disbursement of that level of entitlement, over what cycle, to whom, how, et cetera. Sir Iain and Philippa have already talked about the level of flexibility. That is where we move much more into an operational issue around whether it is possible to split payments or divert a quantum of that entitlement directly to a landlord. I think that the answer is yes. I am sure you will want to pick up on some of the policy issues, but that process is there. Is it being used enough? Are people being caught in the right way? That is another issue. I do not think that the issue of arrears fundamentally challenges the architecture, but it shines a spotlight on some of the second-order choices about operation.

Lord Burns: You have talked a lot about flexibility, whereas the stories we have been getting have been that we have ended up with a very rigid system with very little discretion is built into it, and there is very little opportunity for people who are in different circumstances to be treated slightly differently. That is where we are hearing a lot of messages from the different groups.

Sir Iain Duncan Smith MP: With respect, you will not have seen this before. We are dealing with a system that was once run by local authorities, which all had patchy and different processes, and often paid incredibly late. If you fell out of work you had to make a new claim for housing benefit. That new claim could sometimes take well over a month to be confirmed. That had quite a scarring effect on people. The reason for bringing in housing benefit is twofold. The first point is that you stop that process, but the second is that I think the housing arrears point is overstated. If look at the DWP's figures, you will see straightaway that, once they are in the universal credit system, the housing benefit arrears process starts to reduce quite radically and quickly. It re-stabilises them. The reality is that you would not have known any of this before because all you would have had would be a thumping great load of housing benefit debt.

A good example is that, of the debt that will be passed across, £2 billion is sitting in housing benefit right now that is not claimed or sorted by local authorities, which we are now being told will have to come across to universal credit. You could probably have another inquiry about that. You were unsighted because each local authority declared its position somewhat differently. It is worth saying that some local authorities paid it out at different levels. Not all of them paid it out monthly; some paid it out weekly. It was quite messy. We are trying to get this back into a structure so that people are tidied up.

The second thing about the housing benefit payment is that we forget that local housing allowance, which is housing benefit for private sector and social tenants, is paid direct to the client. It is not paid to the

landlord. The problem with that was that it allowed them to drift on and on, building up huge arrears of debt because, after two and a half months, all they had to do was pay £10 or something. Their debt was reset to zero and they could go on not paying their housing benefit across. They would rack up huge arrears. You cannot do that under universal credit, so it shuts down that door of racking up extensive debts.

The truth is that most people coming on will find their debt reducing directly as a result, which was not the experience of housing benefit. Universal credit did not invent the idea of paying to the client, which is one of the moans that we get from housing associations and others. Here is the reason why: what I have seen endlessly in my constituency—those of you who have been elected MPs at some point should recognise this—is that housing associations quite often receive their money directly. They get what is essentially a five-star payment. It is guaranteed and goes out the door no matter what. They do not have to risk anything. They have no risk on that. Meanwhile, most of their tenants have no connection with the housing association. Nobody cares what state they are in. Nobody seems to be the slightest bit interested in where they are because they are paid direct. The result is that there is no risk to them if these individuals coast along, never go to work and nothing else.

The idea is that if you make the housing associations and others recognise that they also need to be working alongside the DWP, which is the point about universal support, to ensure that those families that they have identified as a result of this as at risk families, you can start to move in to help them rectify their problems. It is mostly about organising their debt and getting them on an even keel. Up until we started universal credit, that was not the case. It is one area where there has been a significant move. I would like to see that go much further. As I said, universal support would be the key to driving this. They are identified now; they are not lost in the system, which they were under the old housing benefit system, and lost completely to view from the housing association—it did not really matter what happened to them, they got the money regardless.

Baroness Stroud: Can I just add something?

The Chair: Baroness Stroud, you are being completely eclipsed here.

Baroness Stroud: It is fine. The design of universal credit is, in essence, an earnings disregard and then a taper. Everything else after that is policy or implementation, if that is helpful for you to understand. The whole crux of universal credit is the disregard to reward the move into work and the taper progression in work. After that, everything else is something else.

Lord Burns: On that basis, what policy changes would you like to see to help the situation people have with housing arrears and the problems they have with housing? You have given some suggestions about five weeks, et cetera. Taking this class of things that you call policy, which policy adjustments do you think would make the problem with housing

less severe?

Baroness Stroud: It is already happening in terms of people being able to say, "Actually, I want it paid to my landlord" or "I want to receive it personally." The big obstacle to it going to the landlord is that, as I progress in work, I actually have to get used to paying it to the landlord out of the money that I am receiving, which is the whole reason why it was set up.

Lord Burns: That is why we see rent arrears.

Baroness Stroud: That is the progression into work and the fact that, now that I am working, I have a responsibility to pay my rent. If I do not get used to paying my rent to my landlord while I am unemployed, it becomes a risk as I move into work. That is why it is so important that we support people to learn how to pay their rent themselves to a landlord—because you de-risk the move into work.

Dr Stephen Brien: One of the questions that Lord Freud and I looked at in the early days of design—I alluded to this earlier—was: what are the banking solutions? To what extent could banks or other providers' payment systems help provide the solution to this in terms of adjustments, allowing the payment of universal credit into one account but then the rent being taken directly out of that while the rest of the money goes into other accounts—basically jam jar accounts? That is one of the things that we worked on but again, unfortunately, we did not have the full support of the Government writ large or the financing to push forward. We definitely felt that there was a layer, a sort of skin that could be put over UC, that could help enormously.

The Chair: This is really important. When I was a boy, that is what people literally had: jam jars on their mantelpiece in which they put their money.

Dr Stephen Brien: One issue is that banking systems have historically been set up on the basis of savings accounts, on top of which there are payment mechanisms. The banking system that a lot of UC claimants need now is a payment management process with, in effect, a residual savings amount. The real value of the banking system is as payment management rather than as a custodian of an amount of money. That mindset shift is something that we worked on with the banks, but never quite got an "Aha!" moment with them in order to produce a product that would help with this.

Baroness Stroud: *Hansard* shows that in the debates in the House on this, we talked a number of times about jam jar accounts as being the solution to this so that the payment received could be automatically split and allocated.

The Chair: So why did it not happen?

Sir Iain Duncan Smith MP: Ah. This is one of the things that we all agree on. The whole point about universal credit is that it drives these other decision-making processes.

The Chair: Sorry to interrupt you, but you should be aware that the Committee has heard a lot of evidence that for people in work whose lives are not complicated, this works very well. We are not hostile, and we understand what came before, but it is the people falling through the grating that we are looking at here.

Sir Iain Duncan Smith MP: The point that I am making is that the whole purpose of universal credit is to establish who they are. In the other systems you would not have known because they are so broken up among different authorities and different payment systems that those people actually fell into enormous debt. We just do not hear about it because no one collated it and said, "This is the scale of their debt," hence why we have housing benefit people—who have housing benefit debt of staggering proportions, by the way—due to come on to universal credit alongside even bigger tax credit debts, which make universal credit debts look quite small by comparison.

So universal credit is not just a payment mechanism. One of the areas that we knew would be necessary was that we want people who do not know how to handle their debt to be able to handle and understand it. That is the point; otherwise, they cannot go to work. If you cannot get your head around paying the right things at the right time, you fall out of work straightaway because you have to pay your debts. If you cannot manage that then you will be out of work and you will not go back in.

This was worked on. I thought we got pretty close to it. It was certainly not something that the Treasury was overly keen on pursuing any further, but back in the department pretty good work was taking place on this. I still think it is wholly feasible for this Government to prioritise that process and basically move people—this would have been part of the universal support process, which would have driven them there—on to special accounts.

Q38 **Lord Livingston of Parkhead:** I turn to another aspect that may be design, or perhaps we will be told shortly that it is implementation: the single payment feature. Obviously, for a large number of people it is fine but we have heard a lot of evidence, particularly in areas such as financial abuse or even just where people have different priorities or disciplines, that having a single payment was creating a lot of problems. This may be linked to Lord Burns' comment about rent arrears as well, if the single payment goes to someone who is spending the money rather than using it for rent. Was it based on the assumption of a stable nuclear family? How was the issue of financial abuse intended to be dealt with?

Sir Iain Duncan Smith MP: Can I quickly take this up? I know you want to go into the more structural point of this. I checked on the figures for this and the important point is that it is not based on the concept of a nuclear family; it is a household income. That is the first point that we

have to make. Lone parents or couples amount to the same, in a sense, in universal credit, whereas that was not the case with the previous benefits. Now you have a clear view about what that household has as income, which allows you to put pensions around that too, by the way. Secondly, the figures now show—

Lord Livingston of Parkhead: Does that mean you have to pay them in that way? I understand the test, but that may be different from payment.

Sir Iain Duncan Smith MP: There are two points about payment. First, just over 60% of all the payments go to a woman, if there is a couple relationship. Over 80% of those who have been recently surveyed said they are satisfied with the arrangements. Bear in mind that families of all different types—

Lord Livingston of Parkhead: Sorry, what was that percentage again?

Sir Iain Duncan Smith MP: Just over 80%.

Lord Livingston of Parkhead: So just under 20% people are not.

Sir Iain Duncan Smith MP: Now you are dealing with families who in some senses are fractional and in some senses fluid. The key thing is that the person who has the care can nominate to receive that payment, and the DWP will enforce that process. The reality is that there is a tendency to assume that the Government can dictate how these payments will go and somehow we will resolve all problems. We cannot. Most people who live sort their own affairs, even people on a very low income. There is an assumption that somehow they are incapable of doing this but they mostly do. The key question here is therefore how the DWP can intervene, and there are processes for it to change that payment direction, which we left in the system. I will let Baroness Stroud pick that up if she wants.

Baroness Stroud: We wanted to be neutral over who would receive the benefit, which is why the recommendation of the department was a joint bank account. Where people did not want to do that, they could income-split if they wanted to. As it was envisaged in universal support, if you came through and the job coach realised that there was tension or an element of fear in the person making the claim, they could explore the nature of the domestic relationships with them if the person wanted to volunteer what those were. Again, one thing to bear in mind here is that we think of the money in the legacy system going to the woman. I think that is behind your questioning.

Lord Livingston of Parkhead: In many cases, yes.

Baroness Stroud: In many cases. But then what happens if someone in that family moves into work? The income of the person who was the carer disappears and all the money goes to the person who has moved into work. It is not often talked about that the whole goal of the welfare system for people out of work is support into work. We wanted to set up a system that would not have that kind of anchor effect—“Actually I don’t

want my partner to go into work because I will lose the money here.” In a working household, the money goes to the person who is earning; we do not question that, even though there may well be financial abuse in those circumstances, and the whole purpose of this is that it should be as close to the working experience as possible, which is why we recommended joint bank accounts. The couple have to work out together, as they will have to do the minute that they move into work, how they want to manage their money. The goal was to be gender-neutral and carer-neutral. That is why the recommendation was joint bank accounts.

Dr Stephen Brien: What you are bringing up are important issues but they are pertinent to any benefit system. How does a benefit system address financial abuse or household and family instability? When you think about it, when it comes to JSA and joint claims, you have to work it all out there. Housing benefit just gets paid to one person, sometimes the landlord and sometimes the claimant. Tax credits get paid to one person. So the actual issue that you are raising is present in every benefit in every benefit system. The implicit comment that I think you are making—let me just test it—is that, as you go from three, four, five, six disparate sources of income

Lord Livingston of Parkhead: I would come back on exactly that point, as a lot of the issues were raised because multiple benefits were coming into a single system; allowance for children might have gone to a different person from working tax credits, and therefore there was a practical split. I accept that, as you go to one set of benefits—

Dr Stephen Brien: There is a trade-off in all these things. Philippa has given you a good rationale for why in many situations in the normal course of affairs there tends to be one income in a household and these issues must be addressed there. To the extent that these households need help, they need to get it. I do not think it is an issue of benefits but of household structure. You cannot get the benefits system to solve everything.

Lord Livingston of Parkhead: It may be exacerbated by it. Among most of the people who have responded to us, there was a recognition that there is a lot to like in UC but that there is a percentage of people for whom it is a struggle. Whether it is 20%, 30%, 40% or whatever on different things, there are struggles. I am fascinated to hear in your evidence, which has not come up so much before, that some of these things are just badly designed but a lot of them we do not need to do at all, apparently either because of the way they have been chosen to be implemented—because the design does not mean you have to do it that way—or because, due to the cuts, you cannot afford to do certain things you would like to have done, but it is not endemic to the design. We have got this now; are you saying that a large part of the previous testing we had can be sorted by just implementing what is already available in a slightly different way, using Scotland as the example? Are we also looking at other countries—Australia has been mentioned—where they have done things in slightly different ways? Are you saying that a lot of it is now

about implementation?

Sir Iain Duncan Smith MP: The key thing is that you build in flexibilities. There is nothing worse than trying to ask a social security system to solve family problems; it simply does not do it. We must recognise that we have to get this right for the majority and put in flexibility for the rest. There was literally no flexibility in the previous systems. With universal credit, let us take for example the couple situation: if the parent with care—more often than not this is likely to be the woman—was to declare in this process that she should be paid the money, the default position of the DWP is to pay it to the parent with care because they are more likely to be the one with the risk. That was not in any system before. We introduced it because we listened to what people said and decided to add one more flexibility into this so that, if they quietly came into the office one day and said, “By the way, I am in that household and this individual is getting the money; I am the parent with care and I should receive the money” then it would default to that. That is my point. You cannot solve all the problems, but in a way the answer to your question is that there are rigidities but also flexibilities. The idea of universal support was to build in immediately alongside this process the ability to say, “Right, this one has a problem. Let’s now move in and see what we can do to hub up round that family and resolve their problems, otherwise they will never go to work.” No system is perfect, but that system is capable of that in a way that other systems were not.

The Chair: When Lord Freud came into the House and was working with you as a Minister, I said to him one evening, “Good luck reforming the benefits system, because you cannot do major reforms at the same time you are trying to cut expenditure.” Was I right or wrong? I have been very struck by what you have said about having a support system, which is not there. Is that very expensive?

Sir Iain Duncan Smith MP: It is difficult to say how much that would cost; I will take a punt at it, so if you quote me and then everyone says it is wrong, I will accept that. I understand it would cost in the order of £800 million to have this rolled out. The questions are what it would comprise and how you roll it out. That is the bit that has to roll alongside. There was a lot of work done on that. On putting through benefit reforms without cuts, the honest truth is that I always knew that this would take a while. We had to work through that process; it is not easy, I make no bones about it. I would much rather have been in the position of the Labour Government in 1997 when they were left a reasonable economy and plenty of money, and decided on tax credits, which I personally think were a disaster, trying to do something which did not exist. I would love to have been in that position, where you could spend a lot more money and work things out along the way, but we were not. Does that mean you do not go ahead and try to rectify what I thought was a clunky, faulty system leading to excessive debt and leaving people massively disincentivised to change their lives by going to work? That was the purpose of what we did with this. I genuinely believe that, for the 2.8

million and growing number of people who are on it at the moment, if you strip out the politics of this, as I am sure the Committee will do—

The Chair: We always proceed on the basis of the evidence.

Sir Iain Duncan Smith MP: I think you will see that, by and large—as the IFS has said and even the Joseph Rowntree Foundation and the others admit—this is better than what went before. The question is how much better we can make it. I am completely open to that and think there are some suggestions.

Baroness Stroud: You do not get to choose when you are in government.

The Chair: You can choose to leave government because you are not happy with what is happening.

Baroness Stroud: Yes, but you do not get to choose when you go in. We were acutely aware of the problems of the welfare state. We had just done two big reports: *Breakdown Britain* and *Breakthrough Britain*. We knew that this was our opportunity to address those very real challenges that were causing a lot of disadvantaged people real pain. We never envisaged that we would have to do these reforms in an age of austerity. It was very challenging. To be honest, had it not been for Iain fighting every step of the way, they would not have happened. Actually, they are incredibly important reforms, which you can see in the current employment figures: we have gone from 8% unemployment to 3% as people have got that work habit, which is extraordinary. As we went along through successive Budgets and spending reviews, we replicated many features of universal credit in the legacy system. For instance, the 16- and 30-hour rule that used to exist in the legacy system was abolished because the features of universal credit were deemed the right ones.

Lord Tugendhat: It is a very big claim that we went from 8% to 3% because of universal credit.

Baroness Stroud: It was not just because of universal credit.

Sir Iain Duncan Smith MP: With respect, the IFS made it quite clear that it believed—it has produced figures on this—that universal credit would lead to a greater number of people going into work. You can decide what figure that is, but there is no question in my mind that, had we stayed with the full legacy system, we would not be in the position we are at the moment.

The Chair: The National Audit Office said that it would be impossible to know how many people.

Sir Iain Duncan Smith MP: The IFS did not agree with it.

The Chair: Surprisingly enough.

Baroness Stroud: Actually, it is interesting that in the campaign to bring in universal credit there was almost daily messaging about the value and importance of work. Over that five-year period, there was a restoration of the concept of work being the best route out of poverty, that it pays to work. This was very important and had not really been present in the political dialogue.

The Chair: Lord Fox has been trying to get in for a while, then Viscount Chandos.

Lord Fox: I think we have moved on and will defer to someone else.

Q39 **Lord Skidelsky:** I want to pick up on exactly this interesting point that the discussion has reached. We have heard that universal credit and support were supposed to go together. Then we had austerity and they did not. We have a business cycle. We are not going to be at 3% the whole time. No historical experience allows us to believe that. At some point there will be another recession and a rise in unemployment. Are you confident that, next time round, you will not withdraw the support from the additional claimants that you will need to make the system work as intended, as happened last time? Austerity did not just come out of the blue with no one expecting it. One has to accept that there are cycles in these things and that unemployment numbers will fluctuate. How does one ensure constant support from this system in those circumstances?

Sir Iain Duncan Smith MP: Can I do the political top line on this one? The point about universal credit is that it simplifies the process not just for claimants but for policymakers. As Philippa said, there are two features to universal credit. One is the work allowances, which offset how much an individual should be able to earn before it is tapered away. The other one is the taper. So, you now make choices. If there is a downturn in the economy and more people are likely to be unemployed, I would argue that the priority for a Government would be to get people into work even if it is not full-time work. They would want to reduce the barrier to crossing over into work, which is in work allowances. You could think of it as rather like a tax system. More money put into work allowances enables that barrier to be very low. If people cross over to do low-hours work, that work should at least pay.

In times like those we are in at the moment, one would want to lower the taper rate so that people progressed as fast as possible up into full-time work. Smoothing those two out is a balance of policy judgment, whereas before, with the legacy, one had only one choice, which was, "We'll dump a load of money into this stuff and a lot of that may well have ended up stopping people going into work because the payment made, whether it is in jobseeker's allowance or whatever, makes it more difficult for them to decide to cross over." With universal credit, one is looking to keep that incentive together, one way or the other, so that the process engages itself.

I remember that the Treasury used to argue, "You don't need to bother about the concept of incentives, because people who are unemployed are

not like anybody else. They have only one choice to make, which is to go back to work, so there is nothing you need to do at the bottom end; they just have to go back to work. That's how it works". I would argue that they make the same choices as those made by people in work as they look around to see how they can maximise their income. Where are they better off? Should they stay where they are in work or take another job offer which gives them a bit more money and slightly different conditions? They are making the same choice, which is, "If I am in the situation that I am in at the moment and I think going in to do a few hours' work does not work for me, I am not going to make that crossover; I am going to do everything I can to stay here because it is logical that I am better off in than if I put in all the effort that goes into this. That is unless I go into full-time work, and I cannot find a full-time job".

Flexing those two levers is the way you meet their requirements. If there are lots of jobs around in a time of recession but they are not full-time jobs, you want them to move into those. As the economy grows and more jobs become full-time, you want them to move into those as well. Flexing those two is exactly what the design was about, whereas, before, you would not have been able to make that decision.

Lord Skidelsky: Thank you. That answers part of my question, but another part was about the complication of the system. We heard that, in moving to this system, sufficient support would be provided to enable people to understand how it worked so that they would not fall into the trap of arrears payments or debt. However, the support was cut just at the moment when increased demand meant that it should have been increased. What assurance has one that that will not happen again? I can understand the aim of the system, but there is an element of complication in it and people have to be helped to steer their way through it. At the moment, when one might have increased demand because the economy is, let us say, in recession, the Government are going to cut again, are they not—unless there is a different economic theory?

Baroness Stroud: Just to clarify, universal support was not cut; it was never built or created. The vision was for a universal support structure to be built around it. It was never present in the legacy system and never properly created in the new system, although some local authorities have sought to wrap care around it.

Lord Skidelsky: So it was designed on the assumption that no support would be needed.

Sir Iain Duncan Smith MP: No. First, we need to be careful about what we are comparing things with. Over time, people get used to the benefits that they are on, how they work, how they claim them and what they do—that is in the nature of it. All new benefits involve a period when you will have to help people understand how it is claimed. People are much more adept at using computers now and making claims off the back of that—frankly, if you cannot use a computer, there are only 5% of the

jobs out there that you can ever do. Yes, we need to help people through it—that period as we go to full rollout. However—and I was talking to the DWP the other day—that need lessens as people begin better to understand how a benefit works and talk to one another about it.

I do not accept the assumption that difficulties of understanding are perennial; benefits bed down and they are beginning to do that now as people get used to the process. The key question then becomes what government does. Last time round when we were headed into a deep recession, the then Government increased spending on welfare payments—I think that it was averaging 60% a year, which was a staggering increase. Most of that, by the way, went into child tax credits—strangely, it went in in great tranches just before an election; I cannot understand how that worked. That was how Gordon Brown decided to make his payments. He paid more into the welfare system because he said that, at a time of difficulty, one should put more money in. I recognise that one makes political decisions about that. Should we go into recession, one would probably want to put more money in.

The key point about universal credit is that it is now much simpler to figure out where that money is going. Therefore, people in this place will be able to ask direct questions along the lines of, “Hang on a second, what are your priorities? Are they to sustain somebody who is sitting out of work, or are they to lower the barrier to get them into work, or are you talking about getting them through? What is your policy?” Now, this becomes a serious and proper policy debate, whereas before it was a case of, “We’re going to spend 60% more and we will decide where it is all going”.

Lord Burns: On the flexibility of the taper, where would you prefer the taper to be in today’s circumstances?

Sir Iain Duncan Smith MP: Fifty-five per cent was where we said there would be massive movement up the scale; if you get it down low, you then end up paying less. It is a balance. We did not win that argument with the Treasury; it did not quite see it. It wanted 70-something. We compromised at, I think, 65 in the end. The present, or previous, Government put in extra money and lowered the taper again. The one good thing that has come out of that—I said that lowering the taper is a decision one makes in a time of fuller employment—is that they decided to focus it. Lone parents have been most beneficially affected. At 15 hours, there was a spike where they paid heavily more in tax credits—slightly more than universal credit, which is a smoother system. This Government and the DWP chose to put their money there, which means that the taper now covers all the way up and nobody is worse off, which is the case particularly for lone parents. That will have been a net positive for them in the system.

Viscount Chandos: I want to pick up Baroness Stroud’s suggestion that austerity could not be anticipated. Lord Skidelsky said that there was of course a cycle. *Dynamic Benefits* is described in the biographical note on Dr Brien as the “blueprint”. Yes, that may have been written and devised

prior to austerity, but by the time the coalition Government were formed, austerity loomed large. I feel that Dr Brien described a system that was in a sense flawed but that had adapted over a long period with the sort of flexibility that evidence suggested was needed, but it was replaced with a blueprint that was introduced regardless of the environment into which it had been launched.

Baroness Stroud: I was trying to say that you cannot choose the moment at which you do reform. We were absolutely cognisant of the fact that austerity was the Government's number one agenda and that balancing the books was the number one priority, but the challenge was welfare reform and reform to the benefit system at the same time as money was being taken out of even legacy benefits. The final decision was to take more money out of universal credit—although that has been corrected now—than the legacy system. It was a problem, because it unnerved people at the point of transition from one system to the other. That is all that I was trying to say.

Sir Iain Duncan Smith MP: I would like to pick up a point about policy. A peculiar premise is being set here that somehow we could not roll this out because we were in austerity but we could have stayed with the other benefits because somehow they were satisfactory. They were not. I know of no one who has genuinely studied this who says that what went on before was better than what we have now; that is simply not the case. I argue that whether or not you end up with austerity, your policy position must be to improve. That is what we are seeking to do and I believe that we are achieving it. The system will achieve it more as it goes down and gets wider usage. I simply say that you do not know what policies are going to happen in terms of money, but the reality is that you still have to make those changes and reforms. I keep coming back to this point. There is a tendency in the debate that has gone on outside—I in no way blame your Lordships for this—that somehow seems to reflect that what happened previously was a sort of nirvana and everything worked well. The report, which I think is good and fair, by Nick Timmins, who by the way has been writing about this stuff probably since I was in shorts, makes it clear that the reality is that there is no such position to take on this.

The Chair: We are circulating the report.

Sir Iain Duncan Smith MP: This is really important. What happened before had real problems with it and lives were genuinely damaged by what went on. The idea that because it was your policy and now we have changed it you are going to attack it—that is not true. Start from the premise that what happened before was not functioning properly. What we have here is a system that I believe will function properly and will get better.

Q40 **The Chair:** If I may, I will pick up on Lord Burns's point about the taper. You said the Treasury wanted 70% and you wanted 55%. How is that consistent with the Treasury view on taxation, where we are told that the highest-paid should not pay more than 45% in tax but the most

vulnerable people should have an effective marginal rate of 70%? Why were you not able to win this argument with the Treasury?

Sir Iain Duncan Smith MP: I will come back to that in a second.

Dr Stephen Brien: It is highly inconsistent, even more so when you look at what are known as the participation tax rates. The tax rates as you go from out of work into work at some level are enormously high for the lowest-paid. For those who care to read it, there are several chapters in here making that argument, going back to the work of Saez and others on marginal tax rates and their elasticities, and ultimately back to the Mirrlees report on optimal taxation to show how that structure needed to change. In effect, that is at the heart of the ideas behind the work allowance and making sure that it is generous. We absolutely wanted to focus on that.

May I bring up one other point to add to the response to Viscount Chandos? The budget for universal credit in 2012-13—Iain, you can correct me on this—was set to be £2 billion a year more generous than the benefit that it was replacing.

Sir Iain Duncan Smith MP: Which it is now.

Dr Stephen Brien: Again, in terms of the overall overarching narrative, the total amount of money going to the equivalent set of claimants is greater under universal credit than under the legacy benefits.

Baroness Stroud: And an investment for the build.

Sir Iain Duncan Smith MP: I come back to my previous answer, which is that there were two streams of thinking about people at the bottom end of the income scale and unemployed. That is detached from what our thinking was on taxation as being a dynamic process, and even now you will have arguments and debates about that. The point that I made earlier is the answer to your question, which is that there was a time when pretty much all work was full-time and for the most part men were the ones in a household who went to work and women looked after the kids—I am going right back now to the period when predominantly that would have been the case—but the work environment has completely changed out of all recognition. Both sexes work; there are different work opportunities. There is a lot more part-time work, self-employment and so on. The idea that you do not have to worry about withdrawal rates and so on because you step over the whole totality and go straight into full-time work, and withdrawal rates are only notional, has long gone. My point is that we therefore have to deal with the reality that people, more often than not, will start with part-time work and progress up the hours, particularly if they have caring responsibilities.

My argument has therefore been that you have to recognise that within the system so it is flexible enough to be able to say, "Get into work and move on up the system." It should have the same dynamic as someone changing their job or a Government saying, "If we lower the taxation here, we get more returns—in other words, more tax take." I know there

is always a debate about that but let us assume for a second that it is at least a general principle, in which case the same should apply to people at the bottom end. That is why I am saying that universal credit, unlike the other benefits, really meets that particular change and is flexible enough to meet the fact that different people in households go to work at different times and for different reasons.

Q41 Lord Tugendhat: Could I refer you to an exchange that took place in the House of Lords on 2 March—not very long ago? Baroness McDonagh asked “Her Majesty’s Government what assessment they have made of (1) the debt levels, (2) the mental health, and (3) the ability to work, of people in receipt of Universal Credit.” Baroness Stedman-Scott, the Parliamentary Under-Secretary, said: “The department has made no official assessment of universal credit’s effect in these three specific areas. We often find that people experience debt and mental health issues that existed prior to claiming universal credit. We think that attempting to make an accurate assessment could be difficult—but not impossible.” Sir Iain, do you agree with that? It would be unfair to ask Baroness Stroud.

Sir Iain Duncan Smith MP: I agree with what she is saying the complexity of an ask like that is. If you go back to the legacy benefits, no such assessment was made about them. So what are we looking at here? The answer is yes, there were complex cases in social security and there are complex cases in universal credit. Trying to figure out the difference between when they moved on to universal credit and where they were before is really quite complex. Now, whether the department that decides to do that thinks it has the capacity to do it is another question. I understand that it is fiendishly complex. That is why I say what I do about the judgments made about the reasons why people do certain things. You have to track right back to figure out what those reasons are, and they can often be something completely different. So I have some sympathy for Baroness Stedman-Scott, and I have no idea whether the department will attempt to do that. My question is what we would do with that information. People want information but I ask: for what purpose?

The Chair: Baroness Stroud, I feel that you want to step into the minefield.

Baroness Stroud: To be honest, you are talking to a team who have now been out of the DWP for nearly five years. Whether or not that particular report has been done, I do not know. I know that the DWP is constantly monitoring the impact on vulnerable people. It would surprise me if there is not information on universal credit and the move into work, on universal credit and health, and on—I cannot remember what the other one was, although there is lots of material on indebtedness. It may not have come in that precise package, but the department—certainly the department that I knew and experienced five years ago—was very vigilant on those factors.

The Chair: That might have been a better answer.

Q42 Lord Stern of Brentford: I assume that the point of Baroness McDonagh's question was that if certain groups are falling through the cracks and appear to have been disadvantaged by the change, and if the groups that appear to have been suffering as a result of the change are in particular poor people, people with mental health issues and people who are disabled or otherwise have very low earning capabilities, there would be a clear policy question as to what could be done to tackle that problem. We put it to you that some of the people who have come in front of us have suggested that those groups have been particularly disadvantaged as a result of the change. No one is saying that it was nirvana before; they all recognise the difficulties with what would otherwise have been the case. Nevertheless, the evidence in front of us has suggested—I put it no more strongly than that—that certain groups have suffered particularly badly, and I have described which groups. Partly your answer seemed to be, “We don't believe that”—that is what I heard—but if that evidence turns out to be strong, what would you suggest could be done to tackle those problems for the particularly disadvantaged and how they have suffered?

Sir Iain Duncan Smith MP: Let us take a pace back. The employment support allowance, which was introduced by the Labour Government, existed before universal credit. When I came in, we had five reviews because we thought it was not functioning properly. Each step up the process involved more for people with mental health conditions. Frankly, to this day ESA is not my favourite. I do not think it was conducted particularly well at the time when it came in. There are lots of issues that you would want to resolve, and they can be resolved much better inside universal credit than outside it. You already have a wealth of figures about what was happening with the employment support allowance on that basis. The question is whether these people move into universal credit and continue to be a problem. Do they get less or more? I can understand that you might want to look at that. I personally think that that area needs to be reformed.

Lord Stern of Brentford: Are you saying you do not accept the evidence that was offered to us that certain groups have been particularly badly hit?

Sir Iain Duncan Smith MP: It depends what you say the evidence is. Is it someone's experience of employment support allowance in the sense that they are now in universal credit having not been in ESA? I just do not know so I cannot accept the premise of the question. The DWP would want to look at that. My personal view is that I would very much like to move to a place where we no longer say that someone, because of their condition, simply cannot work. Now that universal credit tapers away, it is much more flexible to be able to say, “Well, we can give you extra support because you're not well but as you go into work we simply taper it away so that you retain that balance.” Some of that is to do with the problems that you—

Lord Stern of Brentford: This evidence came to us three weeks ago. You may want to have a look at it.

Sir Iain Duncan Smith MP: I am happy to look at it. I will just say that I have been out of it for five years, so I do not know what the Government's view is.

Baroness Stroud: With regard to debt, one of the recommendations that I think you have heard from all three of us is a clear recommendation for a debt amnesty. You asked what action could be taken, and that is definite action that could be taken there.

With regard to disability, in another part of the work that we have undertaken I have led the Social Metrics Commission on measuring poverty. One of its clear findings is the disproportionately large number of people who have disabilities, or who have a family member who is disabled in their household, in the poverty numbers. That was not visible historically because of the way that poverty was measured, whereby disability benefits were credited to your income and not offset against the corresponding disability costs. For the first time we have been calling for a new measure that actually measures disability income versus unavoidable household costs so that appropriate policy can be enacted. I hear what you are saying but I am not sure that it is necessarily caused by universal credit. It may be, but I am saying that in another part of our work we are picking up that families with disabilities are disproportionately in the poverty statistics.

Lord Stern of Brentford: I heard what was laid in front of us.

The Chair: Lord Stern, I am conscious that we have been sitting for more than two hours now. There is one last question that I want to get in, and Sir Iain and Baroness Stroud and Dr Brien are probably feeling pummelled.

Q43 **Viscount Chandos:** Sir Iain, you said earlier that 95% of jobs require a degree of computer literacy. That leaves 5%, and it is likely that disproportionately those 5% require support through universal credit, whether they are disabled, elderly or whatever. I therefore wondered whether you had thought about the issue of lower levels of IT literacy in designing universal credit and thinking about its implementation.

Sir Iain Duncan Smith MP: The quick answer to that, and then I will let the others come in, is that when we started down this road we were told by everyone that the scale of people unable to operate computers was enormous. We moved jobseeker's allowance—a very notchy system, by the way—over to the online system. That was very notchy compared with universal credit and was not the easiest or the smoothest to learn, and we rapidly ended up with well over 70% of people moving on to it that way rather than using a paper-based system. We learned from that, so with universal credit we put banks of computers into all the jobcentres, and there are people in all those centres whose purpose is to help when people come on and, in case they have a problem with it, start showing them how they can make their claim. The jobcentre staff will do the same. In many jobcentres they do what I call "grey teaching", little classes for claimants to come and learn how these basic systems operate.

This is not just about jobs, by the way. If you are not able to operate a computer of sorts, for someone much older it is a very isolating experience now because so much is done online that you are shut out. The way that the high streets are going in particular makes it very difficult for elderly people to get to things because the high streets no longer provide that and they may not be able to get out of the house. So there is a social imperative to get as many people online as possible. However, we made it very clear to jobcentre staff that if someone is simply incapable of doing this, we will do it on paper; they can get these forms out and go through them. I simply say that when benefits first came in there were plenty of people who found trying to fill in a paper-based form a problem because they were simply not literate and therefore could not manage that process. I think we have reduced that quite dramatically and helped. There is flexibility in the system to be able to get them to make their claims.

I was struck that the BBC programme clearly shows jobcentre staff aiding people in making their claim. They want them to make their claim so that they can start the process. They are sitting with them, going through it and saying, "You haven't filled this or that page in, let's do that now." That is what drives it. That will be a diminishing number of people because, honestly, the next generation, and even my generation, are capable of doing most of this from their phones. So we have plans for that flexibility, but the truth is that more and more want to do it online and not on paper.

Baroness Stroud: I was going to say the same thing. While it is an online process, it does not have to be an "on your own" process. It was set up for a job coach to support you through the process. To flip back, I used to run a night shelter where we had to fill in housing benefit forms. If you have never seen a full housing benefit form, I can tell you it is really complicated. That is an obstacle to people claiming as well. So the old forms were complicated too. This does not need to be unassisted in the online state.

The Chair: On that note, we should conclude this session. Thank you so much, Baroness Stroud, Sir Iain and Dr Brien. That has been a really helpful explanation of what you set out to do and what needs to be changed in order to reflect your original model. Thank you very much.