



Select Committee on Economic Affairs

Uncorrected oral evidence: The economics of universal credit

Tuesday 28 April 2020

4.30 pm

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

Evidence Session No. 7

Virtual Proceeding

Questions 55 - 61

Witnesses

I: Councillor Victoria Mills, Southwark Council; Sue Ramsden, Policy Leader, National Housing Federation.

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Examination of witnesses

Councillor Victoria Mills and Sue Ramsden.

Q55 **The Chair:** I welcome Councillor Victoria Mills, who is the cabinet member for finance, performance and Brexit at Southwark Council, and Sue Ramsden, who is the policy leader of the National Housing Federation. Welcome to the Economic Affairs Committee. Perhaps I could begin by asking the first question. In response to the Covid-19 outbreak, have the Government done enough to help universal credit claimants protect their security of accommodation?

Sue Ramsden: I want to start by commending the DWP for the effort that has gone into making sure the vast majority of new claims through universal credit can be processed. The expectation is that people will see the correct amount of money paid on time. It has taken a huge effort across DWP staff and that should be recognised.

The Government have done a number of positive things to try to ensure that people can afford the accommodation that they live in. It is right that the Government have placed an emphasis on the need for people to have the money to meet their ongoing day-to-day costs, including rent. The additional £20 of universal credit and the uplift to the local housing allowance rates are big differences that make it more likely that people will be able to continue paying their rent in quite difficult financial circumstances.

The Chair: How long do you think the Government's measures should remain in place to ensure that the most vulnerable people are protected?

Sue Ramsden: The particular uplifts to benefits and the local housing allowance rates are things that the housing and homelessness sector has long campaigned for, in terms of the need for those rates to return to something approaching the actual private market. We had rates of benefit that fell far short of the rents that people actually had to pay, and people had to make up the difference. People found themselves in very insecure housing situations and that was a real contribution to homelessness. Those rates need to remain permanently at that 30th percentile level or we will go back to a situation in which people find themselves evicted from their private rented accommodation.

Councillor Victoria Mills: I would second that. The difference in Southwark between LHA rates and the median cost of a two-bedroom property, before this recent change, was about £1,000 a month. That is huge. It is important to bear in mind that probably the great majority of the people in Southwark who have applied for universal credit since lockdown and Covid will be in the private rented sector and might well have made choices about their accommodation, having never assumed that they would end up claiming universal credit. The requirement for the LHA rates to be proper, to be fair and to reflect housing costs, especially in London and the south-east, has to stay for ever.

The other big challenge that we need to think about is the suspension of evictions in the private rented sector. We risk a really big homelessness crisis, perhaps in four, five or six months' time, because people who are in the private rented sector will build up arrears because of the five-week wait for their universal credit application. They are going to build up arrears, because their rents are very high. Then, if you suddenly have a removal of that suspension of evictions, a lot of people will suddenly find themselves homeless, which only shifts further the pressure that local authorities already feel.

In Southwark, our homelessness waiting list is already at 11,000. If you add a huge number to that in four or five months' time, that will be very difficult to cope with. We do not know which sectors of the economy are going to recover best. We do not know how long some people who have made recent claims for universal credit will find themselves out of work.

Q56 **Baroness Bowles of Berkhamsted:** To what extent is the rollout of universal credit connected with the rise in homelessness? We have heard a lot of people say that that is connected. Following on from where we got to in the previous questioning, how feasible is the Government's recent request that local authorities provide emergency accommodation for all rough sleepers and how sustainable is it going forward? Do you see that rising as the rent arrears you have just talked about work their way through?

Councillor Victoria Mills: The bigger cause of homelessness is the impact of the benefits freeze. It is the impact of LHA rates not rising as they should have to reflect the cost of housing. That fiscal retrenchment of our benefits system has been linked to universal credit and what people are being paid. Unless you sort out the money in people's pockets, regardless of the system of delivering it to them, you have the possibility of homelessness.

The five-week wait is also a big issue and you can directly pin that on universal credit. Here in Southwark, we started rolling out universal credit from spring 2016. The impact on our council tenants' rent arrears probably peaked in around 2018. It added about £5 million to £6 million-worth of debt on to our housing revenue account. Obviously, we are looking at a group of people who are paying less each month because they are in social housing, so that possible impact on the private rented sector, where rents are higher, is going to be bigger. You can pin that on universal credit.

To the second part of your question, we have done what was asked of us. We have housed rough sleepers, so it shows it can be done. As we come out of this crisis, that is a useful gain that we should not lose. It is important to bear in mind that, for Southwark, the gross cost of our temporary accommodation bill in 2019-20 was around £28 million. That comes out of our general revenue fund, so that money cannot be used on other front-line services. The net cost is probably still in the region of £9 million. We can add to that, but it has implications.

The bigger issue about keeping residents who have been rough sleepers in accommodation is the support you put around it to sustain them and the accommodation you are putting them into. If you are putting them into expensive nightly B&B or hotel accommodation, that is probably not sustainable. Even if you are putting them in temporary accommodation—I have talked about the figures—that is probably not sustainable either. How do we get people into affordable housing? It is by either lifting the LHA rate or giving councils further ability to build more social housing.

Sue Ramsden: On the solution to homelessness and the numbers of people who have been moved from rough sleeping into the new temporary accommodation, there will be a need in three, four or five months' time to look at where those people are able to move on to. We really do not want to see a return to rough sleeping for those people. This is the first time that some of these people have accessed services and support, and they are at the start of a journey into more settled accommodation. There is a real need to work across national and local government, and housing associations, as providers of affordable housing, on solutions for those people. That is a combination of secure, affordable housing alongside the support people need to start rebuilding their lives and manage that tenancy independently. Housing associations are a big part of that solution.

Councillor Victoria Mills: Sustaining that tenancy requires a lot of additional work and services that all cost money. It is totally possible, but it requires the Government to support especially local government to do it.

Q57 **Lord Burns:** I wanted to press you on the extent to which the five-week wait was responsible for rent arrears, but I think you already touched on that in your previous answer. This is a related issue. Is it wise to try to deal with housing alongside universal credit, or is that one of those things in the design that put a great deal of pressure upon the whole system? It seems to me that the whole pattern by which you pay for housing, and the security you need with housing, does not fit easily alongside the other implied benefits in the system. Is it possible to resolve this issue and make sure the whole universal credit system does not end up creating very poor results in terms of housing?

Councillor Victoria Mills: I suppose this is a big challenge for the DWP. It has been very good at testing, but has it been good enough at learning from what it has seen as it has rolled out universal credit? In Southwark, we were involved in the direct payments test back in 2011 and 2012. The housing benefit was paid directly to tenants and they were responsible for paying it on to the council. We could already see then that those residents were falling into arrears more quickly and falling into greater arrears. On average, if you are a Southwark Council tenant and you have arrears due to universal credit, you probably owe the council about £1,500. That is big. That is massive. How do you get back from that?

What are the solutions? Can you get rid of the five-week wait? Ideally, you would. If we are saying that is not possible, can the advance loans be

advance grants? You are getting around a part of the system that we are saying we cannot change by making sure people are not left for that period without money. The legacy benefit run-ons we heard about in the last evidence session are really important. Can we bring those forward from July? Could that be done sooner? Could legacy benefit for working tax credit be done as well?

Broadly, do we think about whether the housing element of universal credit is paid directly to the landlord? DWP thought that APAs, alternative payment arrangements, would only be needed in a handful of cases. Actually, in Southwark they are probably what has brought the level of debt under control. About 40% of our council tenants who are claiming universal credit will have an APA. That is not a handful of cases; that is massive. Under our protocol now, with the tenants we identify as having vulnerabilities, we have a conversation as soon as they transition to universal credit to say, "Should you be arranging an APA with us?"

Sue Ramsden: Going back to whether housing should be part of the universal credit system, as other witnesses have commented, it is quite late in the day to start unpicking the system. We have invested an awful lot of public money in the design and delivery of the system as it is. What is important to me is to recognise the very valuable things that were there within the legacy system, with local authorities administering a system that was slightly more sensitive to individual housing circumstances and housing costs than the universal credit system can be. As the questioner mentioned, housing is a complicated issue. The range of costs involved is quite complicated and the system for social housing tenants pays actual rents. I do not think we can go back and unpick that. However, we should have learnt better how to replicate some of the very positive things that were there within the legacy system, particularly around homelessness with local authorities.

The Chair: Lord Burns, do you want to come back on that? I thought your question was perhaps more about people's feeling of security.

Lord Burns: It seems to me that it should not be that difficult, if you have direct payments of the housing benefit, to get around this five-week delay problem. After all, this is a relatively stable flow that individuals face with their rent and housing costs. To parcel this up with waiting to see what the payment is on a much larger basis seems to get one into a great world of uncertainty and lack of security. Surely, one of the most important things to people in these conditions is that they should have some degree of security over their housing arrangements when other things in their life are getting into difficulty. Finding a way—you suggest one of them—of dealing with this issue could substantially remove a lot of the unhappiness with the position that people find themselves in.

Sue Ramsden: Could I comment on the pattern of rent arrears and what people see? There is a spike at the beginning of the claim, with a big increase in rent arrears, and then a long tail as arrears gradually decrease. Social landlords have done a lot of work with the DWP to analyse the data on this, to better understand that relationship and

pattern. Evidence shows that the problems often start prior to the universal credit claim, so there is an issue about people claiming on time and as soon as they are entitled to. It is quite difficult to get a universal credit claim backdated. That is one of the big differences between universal credit and the legacy system, where there are slightly wider criteria on which you can get a claim backdated. The five-week wait is part of that pattern, but it is not the whole of it, in terms of people's financial situation and why they get into rent arrears around the time of making that universal credit claim.

Q58 Viscount Chandos: We heard evidence that paying rents directly to landlords increases the risk that individuals will fail to pay their rent when they eventually move into or back into work. Do you agree? More broadly, what is your view on using the welfare system to increase personal responsibility among claimants? Has this worked anywhere else and where has it not?

Councillor Victoria Mills: On the broader point about personal responsibility, giving residents in Southwark more choice and control over their lives and how they pay bills is not a bad starting point. The issue with universal credit is that there are two elements of personal responsibility. Before the Covid crisis started, about a quarter of universal credit claims would fail, not because people were not eligible but because they could not navigate the claims process. This idea that you are personally responsible for getting through that claim and getting money you might be eligible for is very challenging. You are not just doing something that is about personal responsibility. You are shifting the burden on to the claimant at that stage.

After that, when you are talking about people taking personal responsibility for their payment, that is all very laudable, but in Southwark it has meant that more council tenants have accrued more arrears. That is not just their rents. When we look at council tax income as well, we can pin more council tax non-payment to universal credit recipients. There is a big challenge in the actual reality. Here is one thing we could do that could reduce that, so should we be pragmatic and do it?

In terms of the evidence that you referred to about it meaning people are less likely to pay, in Southwark broadly our experience is that the more money somebody has in their pocket, the more likely they are to pay their bills. There is evidence from the research we did with the Smith Institute. If you were moving in and out of work and you had three or more applications for universal credit, you were more likely to have rent arrears if you were a council tenant. That suggests there is something about that process that is creating arrears. If those payments could be made direct to the social landlord, it might alleviate that.

Sue Ramsden: I am not sure the evidence is there on whether it means somebody is more likely to move into work. My housing association members have said to me that it makes a big difference to the issue of arrears whether somebody moves into stable, regular work, or whether they move into poorly paid, unstable work, exactly as Victoria has just

described, with an income that is not reliable and not very much to live on. It is that that causes the rent arrears. It is not an issue of whether the rent is paid direct to the landlord.

Coming back to the point about personal responsibility, I have always said I would like to see a degree of personal choice in this area. That is a form of exercising personal responsibility, in making decisions that you know are right for you. If the right decision for you is for the money to be paid direct to the landlord, you should be able to make that decision. We have taken that decision away from people through universal credit. While the Trusted Partner partnership between social landlords and DWP works well, I would like to go back to something that is more about enabling people to take control themselves.

Q59 Lord Fox: This is still on the subject of the housing element of universal credit. Councillor Mills, how did the Government trial that element before the rollout?

Councillor Victoria Mills: As I have already said, we were involved in the direct payment rollout. There was also the Universal Support delivered locally programme, which was rolled up last year, and now we have the Help to Claim work as well. The DWP has definitely tried to trial different things. It has also made it easier for us to put APAs in place. It has definitely responded to things. There has been very early evidence that payment to individuals rather than to the landlord would cause challenges. That evidence probably dates back to 2012-13, and here we are in 2020 and the same problem remains. There has been a lot of testing, but perhaps not as much learning as there might have been.

Lord Fox: Without putting words into your mouth, they tested it but they have not always listened to the results of that testing.

Councillor Victoria Mills: That is how we would feel, yes.

Sue Ramsden: To reflect on the journey the DWP has gone on over this issue, what is called Trusted Partner introduces a trusted relationship between the social landlord and the DWP in the decision that there is a need for an alternative payment arrangement. Effectively, you take that away from DWP and the social landlord is able to use guidance to say it is appropriate in this case for this person to have an alternative payment arrangement. That works well. It is based on a partnership and is a significant improvement on when we first started, back in 2013, with a system of alternative payment arrangements that was really cumbersome and based on putting letters in the post. It was extremely haphazard as to whether anything was ever put in place for the tenant.

Lord Fox: Has the social landlord had to put an awful lot into that to make it happen? In what was just described, the effect and the good way it is working with social landlords, have the social landlords themselves had to invest an awful lot of time and effort to make that work?

Councillor Victoria Mills: We have quite a good, strong policy in place now that talks about the process by which we identify people who are

more likely to be at risk of accruing arrears. We have a good system in place that identifies them and supports them to make a choice about whether they want an APA. I do not think it has been particularly cumbersome, but it is a sticking plaster. The reason we have managed to control rent arrears in Southwark, and the reason tenants are controlling their rent arrears as they transition to universal credit, has been about APAs. It has not been about other reforms that maybe should have been made.

Lord Fox: I think I get that point now; thanks.

Sue Ramsden: It is right that social landlords have that conversation with tenants. That is their role as social landlords. There are lots of things that could be done to make the process easier and put less burden on the social landlord, most of which is around better data sharing with DWP. For example, it would be really useful if, when an APA ceases, the landlord was notified why that payment has stopped. It could be because the person has stopped claiming universal credit. It could be for countless other reasons and it just triggers the landlord to try to investigate what has happened. It would be more straightforward if the DWP just shared the data.

Q60 **Baroness Harding of Winscombe:** I would like to ask you about the support services that are available for the Government to provide support to claimants. We have heard evidence that one of the original intentions of universal credit was to make it easier to identify the most vulnerable people in our communities so you could target support services to them. We heard about the original intention to have a universal support as well as universal credit. Could you talk us through what you see as the main gaps in the support services that the Government can offer claimants, how those compare to the support that was available for legacy benefits, and what we need to do about it?

Sue Ramsden: I will start on universal support, because this was a really important plank of universal credit at the start and one that has not seen the development that it needs, as the Department has concentrated on the basics of making sure that claims are paid on time and the IT system. The original vision, and one I would really like us to go back to, was of a partnership across all the local resources that are there to help support people, with local authorities being a key part of that partnership, co-ordinating things to make sure the support is there for somebody to both make and manage their claim. That includes digital support and could lead on to the help that is available for somebody to find work, or support around basic skills.

These things are probably even more important now as we try to get out of this crisis and get people back into the job market. I would dearly love to see the Government put more energy into providing that universal support principle. There is a contract there with Citizens Advice and the Help to Claim service is very good. It is just one element of what could be in place with better co-ordination of all the existing resources and better

data sharing across the different agencies seeking to offer support, particularly for very vulnerable people.

Councillor Victoria Mills: DWP assumed that only a small number of people would need support and that support did not need to be very sustained. Actually, in our experience, lots of people need support, especially when making the claim and navigating the start of the process. Some people—it might be only a minority but it is a significant minority—need sustained support, especially if we are talking about people making their payments for their housing. That latter thing has simply not been accepted or been there. There has been no sustained package of support and that is lacking, especially when we talk about further rollout of universal credit, especially to people who might have severe mental health issues or other vulnerabilities. There is a big challenge there about the support.

I have already mentioned it but being able to make a claim seems to be a test in itself, rather than whether you are eligible for universal credit. That seems very unfair. Being digital by default is fine, but you have to put in the support to get people through that. There are very few soft edges to the system. We have heard already about claims only being able to be backdated for a certain period. Is there not more flexibility on that? Anecdotally, we understand that the residency test is tougher. Here in Southwark, we have lots of people who were not born in the UK and they are now trying to navigate this system. Is that fair? If that is the way it is going to go, how can we support people to get through that? Particularly for those people who are making their first claim, more support could be put in place, whether it is for the local authority or the third sector to do that.

Baroness Kingsmill: This is a follow-on from that to work out what the financial impact is. It seems as if more and more support for the rollout of universal credit has been necessary for the wider social and supported housing sector. We have heard evidence to suggest that, increasingly, advocacy groups, local authorities and others have to take a greater role, with the financial impact that has. The support from Citizens Advice appears to be uncertain. The Government are making noises that would suggest that is not going to be supported, as far as the housing sector is concerned. Perhaps you could give us some colour on the financial impact on local authorities and generally speak about the rollout.

Councillor Victoria Mills: In terms of the financial impact on local authorities, about half of our council tenants depend on benefits in some way. Before Covid, we had about 8,000 council tenants who were claiming universal credit. We estimate that probably 1,000 additional council tenants have claimed it in the last few weeks. At its peak, the impact of arrears on our housing revenue account meant that we had £15 million-worth of arrears. If we think of the conversations we had earlier in this session, about not having to rely on temporary accommodation and having the affordable housing we need, that all becomes far more

challenging if we have that level of arrears on our housing revenue account.

In addition to council tenants, over the last weeks we do not know exactly what has happened in Southwark, but we think we have probably had in the region of 3,000 new claimants for universal credit. If you look anecdotally at the impact on our council tax over the last year, we would probably say we had lost about £1 million in council tax income because people were on universal credit and were unable to pay it. Here we are with even more universal credit recipients in the borough. Yes, it is going to have a big impact on the nature of our services if there is not more support in place.

Sue Ramsden: On the specific costs for social landlords of providing that additional support to tenants to help them make and manage their universal credit claim, that is certainly what housing associations have experienced over the rollout of universal credit. That is combined with the financial hit of tenants who are receiving universal credit carrying a higher level of arrears. The next phase of universal credit, when we go back to some form of normal, is the further rollout to the people who are left on the legacy system. We would urge the DWP to work more closely with social landlords through that phase, so there is not an overwhelming burden that falls on the social landlord in supporting people.

Baroness Kingsmill: Would you like to try to put some figures on this, or do you think this is too early to say, given the Covid crisis?

Councillor Victoria Mills: It is just really difficult. The figures that we have seen for universal credit claimants in the last few weeks are huge. It is very difficult for us to estimate what the costs will be in terms of that welfare impact on the council. On additional support, this covers a range of independent advice services; it is not just about universal credit. At Southwark, we spend nearly £1 million every year on independent advice services for our residents across a range of needs, but housing and welfare will be high up the list. Even before Covid, that advice system was under huge pressure. Just paying for the advice services will be huge and then you need to bear in mind that, at this stage, Covid means we have a loss of income, budget savings that have not been met and additional costs.

Q61 **Lord Livingston of Parkhead:** You have been very balanced today in the evidence you have given, so thank you for that. Some of the submissions we have received over the last few months have expected UC to be the solution to everything and blamed UC for being the cause of every problem. Trying to pull away from that, you mentioned some of the aspects earlier. I would be interested in your views on the other housing policy levers that could be applied, in either the short term or the longer term, that can reduce the dependence upon the housing elements of UC, and in particular the problematic parts of the housing elements of UC. What other things would you like to see changed?

Councillor Victoria Mills: Thinking about the impact of welfare reform over the last 10 years, and particularly the pinch point that Covid has caused, it would be very helpful generally if the benefit cap could be removed, but it would certainly be helpful now. More people are going to be shifted into that because universal credit payments have increased and LHA rates have been increased. Relieving that would mean that councils could use their discretionary housing payments for other things, for those people who do not go into the cap. More discretionary housing payment generally, but particularly now, as part of this crisis, would help.

Lord Livingston of Parkhead: Is that a particularly London issue in your mind?

Sue Ramsden: The overall benefit cap is lower in the rest of the country. There is a slight uplift.

Lord Livingston of Parkhead: Yes, but housing costs are significantly higher.

Sue Ramsden: It is an issue for larger families and people where the rent is high. It is an issue across the country.

Councillor Victoria Mills: Yes. An uplift in discretionary housing payments would help, as would a suspension of the bedroom tax during the crisis. A lot of our DHP is spent on that, so it would be one element of relief that would help us get through this period. That is off the top of my head. I do not know if Sue has others.

Sue Ramsden: I would add the longer-term levers, which are around investment in social rent. There is a desperate need to return to building new housing for social rent. We estimate a need for 90,000 units a year. Those 90,000 units can only be delivered by housing associations at a social rent level with capital investment from Government. We believe that, in the long term, that makes economic sense, given the long-term savings to the benefits budget, never mind the situation for the families who are living there, in terms of a place of security and being able to afford the property they live in.

Councillor Victoria Mills: Longer term, if we are going to build more homes, as we are trying to do here in Southwark, we need to think about either the suspension or the removal of right to part-buy. We have this ridiculous situation whereby we will be paying huge discretionary housing payments to UC recipients who are privately renting houses that used to be social housing. That does not make economic sense to anybody. We are determined to build more social housing, and we hope other local authorities want to as well, but, if they are simply going to be removed into the private sector or some percentage of them are, that makes no economic sense whatsoever.

The Chair: You might find the Committee's report on housing had quite a lot to say on this. We agree with much of that, but it is slightly going off the subject.

Councillor Victoria Mills: The suspension of payments for historic overpayments of benefits came up in the last session. That is really welcome. People can be losing up to 30% of their UC payment to pay off things that were overpaid years and years ago. The Government have an opportunity now to say, "Okay, let us write them off", or at least to say, "Let us just forget about them for a little longer while than this crisis". That is one really welcome thing that has happened in the last few weeks, and is a relatively easy solution that does not involve a redesign of the UC system.

Sue Ramsden: Can I add the suspension of sanctions and learning what difference that makes to people and their ability to afford the tenancy they are in? We have a very punitive system of sanctions. Moving forward out of this crisis, it is an opportunity to look again at the need for such levels of sanctions to be applied and the conditionality rules that sit around universal credit. I would like to see a shift towards a much more supportive role, in terms of the offer around skills and getting people into work, rather than a punitive sanctions regime that often punishes people for difficulties and crises they are having in their own personal lives.

The Chair: Thank you very much, Ms Ramsden and Councillor Mills. That has been a very helpful session. That now concludes the session. I am very grateful to you for your answers.