HOUSE OF LORDS

Select Committee on Economic Affairs

Corrected oral evidence: The economics of universal credit

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3.30 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. 6 Virtual Proceeding Questions 44 - 54

Witnesses

I: Paul Gray, former Chair of the Social Security Advisory Committee; Gareth Morgan, Managing Director, Ferret Information Systems.

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Examination of witnesses

Paul Gray and Gareth Morgan.

Q44 **The Chair:** Paul Gray and Gareth Morgan, welcome to the Economic Affairs Committee. We are extremely grateful to you for participating in this virtual Committee. Perhaps I could begin by asking the first question, which is how well you expect the universal credit system to cope with processing the number of applications and getting payments to people on time if unemployment reaches the very high levels that are forecast.

Paul Gray: Inevitably, the system will be under a great deal of pressure. We have already seen announcements earlier in the month of well over a million new applications coming in. I do not have any information on how well the system is coping. I hope that now having a predominantly online system is an advantage in these circumstances, as long as the capacity of the online system holds up.

It seems likely that the current and prospective surge of new applications will mostly be from people who have been in jobs and now sadly find themselves out of jobs. They are probably more likely to be used to using online systems than some of the early claimants into the system. We have already seen the department announce big redeployments of staff. I have seen a figure of 10,000 being redeployed to help cope with this surge. I assume that a significant part of that is staff who are normally in jobcentres, who will not now have face-to-face meetings with clients, so I hope that redeployment will help in coping with the surge of new applications.

The department has announced relaxations of various requirements, such as no need to make a phone call as well as going online and no need for face-to-face meetings. It will inevitably be a very big task for the department. Processing all those applications and keeping to the five-week deadline will be a huge challenge.

Gareth Morgan: First, I should pay tribute to DWP. I and many others have been very impressed and a little surprised at how well it has been coping with the surge. As Paul Gray said, if the same loosening of conditions was to be applied in future as it has been for the Covid surge in claims, it seems that the system would cope well.

Q45 **Baroness Bowles of Berkhamsted:** Does universal credit provide enough financial security for claimants, as a generality and now in the context of the coronavirus, if there is a difference?

Gareth Morgan: No, and the £20 addition which the Government have introduced into universal credit probably recognises that. There are always huge difficulties in getting information and evidence, and the five-week wait will push people into debt. The advances, welcome though they are in many ways, will reduce long-term income below even the normal minimal level of support, so the recognition is that the austerity cuts and the general imposition of conditions on universal credit have reduced financial security. Crudely, people just do not get enough money to meet their needs.

Paul Gray: It is important to make the distinction, which I know the Committee has sought to do in your earlier sessions, between design issues with universal credit and the level of the various benefits. Since the start of universal credit, there have been significant reductions in the level of the various components of working age support. As we speak, notwithstanding some restorations and temporary additions, the levels of support in the system are probably less than when it was originally planned and put into place.

In talking about security, it is important to recognise the design and operational features. Inevitably, one has to come back to the initial wait period as one of the key dimensions of the question of whether it is providing adequate security. The Committee may want to come on to those issues in more detail, so I will leave it at that for the moment.

Q46 **Lord Burns:** One issue of design that we have looked at repeatedly so far is the question of the month-long assessment and whether this is integral to how universal credit works. There is a concern that that wait will be quite difficult for a lot of people during this crisis. To what extent do you agree that it is a rigid part of the system, is integral to the system and is not capable of being flexed in any way?

Gareth Morgan: The month-long period probably reflects an assumption that that is how most people live, in a regular cycle of income and expenditure, but many people, probably disproportionately many among claimants, do not live in that way. Having said that, I suspect it is too embedded in the design of universal credit to move away from that assessment period concept, but that does not mean you cannot adjust the way in which the calculations and the five-week wait, for example, work within it. There are ways around that rigid conditionality without having to alter the assessment period, which is probably too difficult to change.

Paul Gray: I agree. It was always going to be very difficult to settle on what the core assessment period should be, given that universal credit is seeking to bring claimants together from very different circumstances—and, critically, people in work as well as out of work, which was one of the key changes—by reintegrating tax credits into a single system.

I agree with Gareth that the issues seem to be much more about how much flexibility you can introduce into the frequency of payments as distinct from the core assessment period. There has been quite a big journey on that since the early days. In 2011 or 2012, the Government of the day were very heavily focused on saying, "Monthly is how we want things to operate for most people".

There were strong efforts, certainly from the UK Government, to play down the potential for flexibility in frequency of payments. In Scotland and Northern Ireland, they talked from an early stage about moving to fortnightly payments. They also talked about making the direct payment of housing benefit the norm, rather than it being included in the awards.

Another big shift was in relation to advances. As chair of the Social Security Advisory Committee, although advances are not an ideal or full solution, at that stage we were strongly recommending to Government that, given that they need to be repaid, more scope should be given to people to take advances to help them over that early phase. We have seen a huge change in that now. Many more people are taking advances. The introduction of lower limits on the amounts that can be taken in repayments of advances, and the increase in the period over which they can be made, are very welcome.

The other big change is the introduction of so-called run-ons. For some claimants coming into the system who were already in receipt of housing benefit, two years ago a two-week run-on or run-over of their existing housing benefit payments was introduced. From this summer, the Government are now planning to bring in a similar run-on for people coming from the traditional means-tested benefits of income support, JSA and so on. That gives rise to the question of whether one could design other mechanisms to ease the payment introduction and help mitigate the unavoidable delay from the monthly assessment process for claimants who cannot benefit from that, such as people coming from a position of unemployment or transiting from tax credits.

Lord Fox: Mr Gray, you outlined some of the changes and we heard earlier about some of the adjustments made to the system to accommodate the Covid influx. You mentioned the increase in money, but also the abandonment of the need for a telephone call. Should any other changes that have been brought in as a Covid measure endure, in your view, once this passes?

Paul Gray: The one I would draw attention to is the suspension of the minimum income floor. The Committee may want to come on to that subject in more detail later, and perhaps I can leave my comments until that point, but there is a very interesting set of issues to do with whether further adjustments need to be made for the handling predominantly of the self-employed in the system.

Lord Burns: It seems to me that an enormous amount of effort is going into finding ways round the inflexibility that has been built into the system. Can you explain, in a short version, the technical barrier to adding some flexibility to the actual core of this itself? When we took evidence from Sir Iain Duncan Smith, he told us that universal credit could be very flexible. I hate to call it obstinacy, but there is a general view that it will be with us for ever in this particular form.

Paul Gray: It is quite difficult, as Gareth was saying earlier, to change the assessment model, particularly as you bring more and more former tax credit recipients into the system. There will probably be a majority of people in the long run whose normal sources of income are monthly. Having an assessment process for them that is other than monthly is quite tricky. On the other hand, it is very complicated for people who are getting money weekly or fortnightly.

My sense is that the department had to invest an awful lot of time and IT effort into getting a core assessment system. To have variants on that, I suspect, could well take us back to some of the earlier IT problems with the early introduction—in other words, the attempt to bring in more flexibility on that core computing element in the system ends up taking us back to more delays. It is more sensible to focus on whether more could be done to make the payments system more flexible, so that, even if people have to wait for that monthly assessment, with a five-week wait to get a clear view of their entitlement, they are getting some income in the first instance.

You referred to the session with Iain Duncan Smith and others. There was a reference in that session to a recent report from the Institute for Government, which Nick Timmins prepared. I believe the Committee may have had copies of it. It raises interesting questions about whether you could have a so-called silver hello in the system. It might technically need to be an advance, but for people whose claims were then validated through the assessment process it could be seen as a permanent part of the system that did not have to be repaid, like other advances. My short answer is that it would be very difficult to change the assessment module, but there is more potential flexibility on payments.

Gareth Morgan: There is a human element that could be fitted in here. Many people have frequent changes of circumstance, which are perhaps more common than the designers of universal credit expected, and the hard edges in the rules and the IT systems are areas where problems are caused. If you could soften those hard edges by buffering and creating some flexibility, that might bring a lot more ease and humanity to the way the system operates. If that required some kind of human discretion, we would not want to see it delaying and slowing the processes any more or removing objectivity, so it would probably require an investment in resources, such as work coaches and other DWP staff, but that softening might well more than justify the additional human costs.

Q47 **Viscount Chandos:** Mr Morgan, following on the same theme, I was very struck in your written evidence when you wrote, "Far from making irregular earnings smoother, universal credit takes regular earnings, and outgoings, and turns them into irregular income". Can that really be resolved without a change in the assessment period? Are there measures that you and Mr Gray have not yet flagged that would meet the objective implied by your statement?

Gareth Morgan: I think so. The problem, as I am sure most people are very aware, is that universal credit takes into account all payments received during that assessment period. For somebody who is paid on a weekly basis, that really means they could be having 28 days' pay or 35 days' pay taken into account for the same one month of universal credit. If you are a monthly paid worker, it could be anything from zero days, if you happen to have no pay days within that month, to something over 60 days.

The actual daily earnings figure is really badly misused in the assessment period figure, because it can skew the total level of earnings that is taken into account. That is why, as I wrote in my evidence, you see huge differences in the amount of universal credit that is payable, which leads to huge differences in income over that period. I have modelled very carefully, using only data that is already being used within HMRC's RTI system and passed to the DWP, to see whether a day rate could be used that would enable that smoothing to take place. Mathematically, in my spreadsheets and so forth, it works very smoothly indeed.

It creates one problem, which may even become an opportunity. You need to take account of potential earnings in advance, certainly in the first month, and that leads to a reconciliation process in month two. Compared to the working tax credit annual reconciliation, that would be much smaller and much closer to any additional income that had been earned, so there would be no impact or very little impact from adjusting in the following month.

Once you accept that estimation of income forward and a reconciliation, that also solves the five-week problem, because you can estimate people's income when they come on to universal credit for the following period, make an immediate assessment and payment on that basis, and then reconcile it in month two.

Q48 **Lord Fox:** Universal credit introduces further complexity for claimants, and, Paul Gray, you also talk about the design and the implementation. Does universal credit actually simplify the benefits system? We have heard already of the complexities in the monthly assessment period lump-sum payment structure. Looking beyond that, is there a way for the system to simplify things such as council tax support, free school meals and prescriptions? How can we drive simplicity here?

Paul Gray: The first point to make, and you have heard similar evidence from others in past sessions, is that the predecessor system or set of systems was anything but simple. It was incredibly complex and very difficult for people to navigate. That is not because the designers and modifiers of the predecessor system thought it would be a good idea to make it complex. Various add-ons and adjustments were made in response to emerging issues.

I am afraid most social security systems have this characteristic, particularly in our current and emerging labour market, which is itself very complex. We have moved a million miles from the rather straightforward world of work and employment that Beveridge was diagnosing nearly 80 years ago. We now have many more people in very different forms of employment. The starting point was definitely not simple.

How simple is universal credit by comparison? There is significant benefit in seeking to bring back together the different components and, in particular, to integrate tax credits. The Labour Government in the late 1990s and 2000s, in introducing tax credits, went to great pains to emphasise that this was nothing to do with the social security system. Indeed, the Social Security Advisory Committee at that time was debarred from offering formal advice on tax credits, because there was a very strong wish to emphasise that this was nothing to do with social security, notwithstanding the fact that essentially we are talking about people who are navigating different aspects of their lives.

Bringing them together is essentially a good idea. That inevitably brings some awkwardness with it, but on balance it seems better to have all aspects of support brought together into one system, where people can have a single point of contact.

You touched, Lord Fox, on council tax support. One of the paradoxes is that although universal credit brought together and sought to unify the traditional means-tested social security benefits and tax credits, at the same time some aspects of support were spun out of the system.

Council tax benefit was localised. There had been relatively simple links in the old system for the various so-called passported benefits. Essentially, if you qualified for income support, you would get free school meals and free health prescriptions. Everybody knew, when UC was being planned, that it would lead to some added complexities there. Indeed, the committee I was chairing was tasked in 2011 with producing a report on how to handle passported benefits.

What has happened on that is not optimal. For council tax relief, different local authorities in different parts of the country have operated slightly different systems. That is perhaps unfortunate. On the passported benefits, where there was always going to be a real challenge in getting the right balance between maintaining work incentives, keeping it simple and keeping it affordable, we have probably ended up with individual rules for school meals, health benefits and so on, meaning that a cliff edge has been reintroduced into the system. Within the core of universal credit, you have this withdrawal or implicit tax rate of 63%. There are clearly points in the income distribution where people, over a fairly narrow range of income increases, potentially lose quite large passported benefits.

Gareth Morgan: That is absolutely right. The danger of an earnings cut-off in passporting benefits is that cliff-edge problem of a very small increase in resources creating a very large loss in support from prescriptions, free school meals and so on.

The Chair: Mr Gray, your answers are very helpful, but can we try to keep them as brief and focused on the question as possible?

Lord Skidelsky: The thrust of Lord Fox's question, which you did not answer at all, was how to bring two languages together: the language of bureaucracy in which these entitlements are described, and the language of what Dr Summers called the lived experience of claimants. That is an important source of the gap in the whole thing. There is one language used by the authorities, and the lived experience of people is very different; they do not understand that language, they have problems with IT, and then distress is caused. How do you bridge the two languages? It is not a new question, it is a very old question that has been asked for about 2,000 years, but how do you do it?

Paul Gray: It is extremely difficult and, as you say, it is not a new problem which this system has introduced. There were significant gaps of the sort you describe, Lord Skidelsky, under the old system, where people had to navigate four or five different systems simultaneously.

The introduction of the work coach system offers the potential to guide people through the process. I pay tribute to the work of the third sector organisations, which are essential lubricant for more vulnerable claimants in assisting and helping them through the process. Whether enough support has been given to the voluntary sector to enable it to carry out that support work to the necessary level is a very big and open question.

Q49 **Baroness Harding of Winscombe:** Does the design of universal credit entrench debt among some clients? We have heard evidence that historical debt from overpayment of tax credits should be written off. Is that the case, and should we do that?

Gareth Morgan: It is true that some tax credit debts in particular are very old and very hard to evidence, so there would seem to be some natural justice in a statute of limitations. I have no idea what the costs are, although I suspect that some of these debts have risen from the dead after having been forgotten by HMRC for many years. It is certainly true that both the rates of benefit and the irregularity of income caused by issues such as the payday problem make budgeting and long-term planning very difficult. Those peaks, and in particular the troughs, may well force people into seeking expensive credit or loans, and from there further and further into debt.

Paul Gray: I agree. This is a big problem. We are talking for tax credits alone of something like £6 billion of tax credit debt that has not been paid off. So far, only about £1 billion of that has been transferred, because the bulk of tax credit recipients are not yet in the system. Then there is housing benefit and JSA debt as well. The total is getting horribly close to £10 billion, so this is a huge hangover in the system.

There would inevitably be difficulties if writing off or ignoring all that debt was to be contemplated, but in practice a large proportion of it will probably never be recovered. In a former life, when I was running tax credits in HMRC, there were very big variations in the rules on what debt should and should not be written off, so there has already been a lot of past inconsistency on this.

With the more liberalising impact on policy that we have seen recently, the potential for looking to write off some of that debt, or something similar, should be explored. I can well imagine accounting officers in front of the Public Accounts Committee being given a very tough time on any proposition like this. If that is felt to be too difficult, the repayment of it could be phased much more fully than has been done already. In practice, even though that debt may be still on the books—as in some other areas of government, such as student loan debt—the reality may be that it is not all expected to be paid off.

Q50 **Baroness Kingsmill:** We referred to it earlier on, but could you explain the basic principles behind the design of the minimum income floor? I will slip in the supplementary question at the same time and ask whether the DWP should consider introducing an averaging of earnings for some self-employed people, whose monthly profit and loss accounts can be volatile. We have discussed it a little to date, but perhaps you could focus on the design principles behind the minimum income floor.

Gareth Morgan: If there are design principles, the main one seems to be that you should be self-employed only if it is in full-time profitable work, which has to be steady, continuous and absolutely certain. The alternative interpretation might be that self-employed people are hiding their real earnings, doing the work as a hobby or doing very little but avoiding the conditionality terms which they would have to follow on an in-work benefit.

Anybody with fluctuating earnings or even very regular seasonal patterns can be very badly affected by monthly assessments underpinned by the MIF. It is not just earnings either; it is also the varying costs and expenses that they may have. Once again, I am afraid my suggestion of a daily basis of income assessment would function fairly well there, although you might have to have a longer period of estimation and reconciliation.

Paul Gray: Handling the self-employed in the social security system has always been a huge challenge. Traditionally, the self-employed did not really feature. If you go back to Beveridge, who were the self-employed in our society? They were predominantly middle-class professionals, so the self-employed really did not present to the social security system. Until quite recently, the predecessor regulations have treated them as an exception.

Given the huge growth of self-employment already, and prospectively further growth, the system has to try to cope with them in some way. I agree with Gareth on the underlying principle that people should be gainfully self-employed to qualify for benefit through that route.

On the question of averaging, when I was chairing the Social Security Advisory Committee we looked at this back in 2013 and 2014, and, indeed, we recommended that government consider looking at averaging. That is still well worth considering, particularly when one links it with one of the other issues you may want to come on to, which is the treatment of surplus earnings.

Q51 **Lord Livingston of Parkhead:** You are absolutely right: surplus earnings are what I want to talk about. They are sort of the other side to it. It would be good to understand the principles as you see them of surplus earnings. We talk a lot about other parts of the problems with averaging and the like. What do you see as the major issues on surplus earnings?

Gareth Morgan: It is very odd, but surplus earnings seem to be the reverse and contradictory approach to the minimum income floor. The idea of surplus earnings is to prevent people who are paid a large amount of earnings on an irregular basis receiving more benefit in the months when they are not getting those high earnings. That is the reverse of the justification for the MIF, where people who receive small amounts of earnings are assumed to receive more. With the surplus earnings, people who receive large amounts of earnings have them taken into account, so we give with one hand and we take away with the other in this approach.

Lord Livingston of Parkhead: Do you think that is intentional, because in both cases that benefits the Exchequer?

Gareth Morgan: I am not a great believer in conspiracy theories. It is much more likely to be a cock-up and one that nobody particularly wants to reverse. At the moment there is a £2,500 buffer, which has been repeated year on year since the rules came into force. When that buffer drops to £300, certainly people on monthly earnings, and perhaps often people on weekly earnings, will find themselves not just disqualified from receiving universal credit in one month but having a surplus earning for the following month when they claim next.

That makes the pattern even more complex and they may lose the benefit of the work allowances in those months as well. It adds to the complexity of universal credit, which any benefit adviser will tell you is far more complex in practice than the legacy system.

Paul Gray: I agree. This part of the system is, frankly, unsustainable. When the advisory committee looked at this back in 2015, we argued strongly against the arrangements for surplus earnings and particularly warned about the point Gareth just made. The plan then after 12 months was to reduce the disregard or the de minimis to £300. It is modestly encouraging that since then the Government have progressively extended the £2,500 disregard, and, indeed, after six months any so-called surplus earnings are disregarded automatically.

There is a way of cutting through the minimum income floor and surplus earnings issues by having a serious look at the question of averaging, as you suggested earlier. The system is far too complicated even for most of the people running it to understand, let alone the hapless claimants. Having said all that, handling self-employment will always be very difficult in this system.

Baroness Bowles of Berkhamsted: How easy or how possible is it for these kinds of tweaks to happen, such as going to the daily rate or making these other adjustments? In previous sessions, I have certainly been left with the opinion that the software is not very easy to tweak.

Gareth Morgan: In technical terms, writing those changes in rule code is not difficult. I do it day in, day out, for models and for advice systems. The greater difficulty is not so much in the calculations; it is in the administrative requirements that underpin them. There, I have no knowledge of the internal workings of the universal credit system.

I have a suspicion that anything that is that big and takes that long to develop has had a lot of flaws built into it and makes people very nervous about changing something that seems to work. The better systems are the small and simple ones that you can understand. When a computer system gets too big for one person to understand what it is doing, there are huge dangers in trying to tweak it.

Q52 **Lord Monks:** Lord Skidelsky drew attention to the communication of cultural gaps between the bureaucrat and the client. Our attention, as a Committee, has been drawn particularly to those with mental health problems, those who are generally struggling to master new technology, those with no access to computers and so on. How well do you think the DWP's work coaches and the jobcentres are coping with this? Are they providing support or is it a fairly hopeless task? I am interested in your opinions.

Gareth Morgan: I do not have any experience of support within jobcentres, but the damage done to the other advice and support services that used to be very widely available to people who needed help and support, frankly, has been shameful. It would take a very long time to rebuild the framework of the advice and support services that have been lost, but, particularly in the current circumstances, it should be done. Informed, independent and free advice and support should be recognised as an essential element of the system itself.

Paul Gray: I agree. I touched earlier on support to third sector organisations, and that is part of a wider issue about the so-called universal support principle, set out at the start of universal credit, of engaging local partnerships to ensure that particularly vulnerable claimants were given the right levels of support, not just by work coaches and DWP staff but by a wider network.

I do not have a clear answer to how well work coaches are coping with this. The challenges that work coaches face are very considerable. A key part of the design of the system is the encouragement that work coaches are meant to give to get people back into work or, once in work, to increase levels of work or earnings from work.

A few years ago, I had the opportunity to observe staff in action when I was still chairing the advisory committee. By and large, I was very impressed with what I saw of the work that work coaches were doing, but it is extremely difficult to expect them, as well as doing their fundamental advice role, to be able to recognise and diagnose people suffering varying degrees of vulnerability, whether it is mental health or elsewhere. That is why investing further in the originally intended universal support system still seems to me a big priority.

Q53 **Lord Skidelsky:** This question is about conditionality. The DWP has described universal credit as part of a general move from entitlement to conditionality. In your view, is that correct? Is it good that, in fact, welfare should be entirely conditional and there should be no element of entitlement, independent of conditionality? Finally, how does it compare to welfare systems in other countries?

Gareth Morgan: Conditionality has been designed to be central, but, as we can see with the tweaks that are now being made, it is not essential to the operation of the benefit. Everybody accepts that there have to be rules and they need enforcing. The question is really one of degree. If the benefits regime is seen as one of severe punishment rather than encouragement and nudges, it can only colour the view of that benefit and its purposes.

If it was possible to change it into a process that prioritises supporting people to meet the conditions of an award and that perhaps helps them develop the skills and confidence to meet those requirements, rather than a system that only takes their method of support away, often for very long periods, in the way that sanctions are applied, that might make it a rather more humane and certainly more acceptable system.

Lord Skidelsky: Is one way out of this growing conditionality to ensure that people can earn enough from work and wages in order not to be forced on to this system to the extent that they are? That was the Beveridge idea originally: that people normally supported themselves through their work and that, in exceptional circumstances, they got on to the benefits systems. Here, we seem to have lost the idea that people should normally not need to go on to the benefits system for such a wide range of necessities.

Gareth Morgan: There is a real problem with that approach. Beveridge was living in a time of much more common nuclear families, which tended to have the same kind of construction and size. I suspect that pay is related more to the work done and not to the needs of the worker. If somebody is doing the same job and getting different pay, it is very hard for an employer to understand how to operate that.

It would be difficult to pay a single person living at home with their parents to do X hours of the same job and to pay somebody who has several children and pays rent a different amount. In-work benefits were created in the first place to recognise that people may have more needs than the work justifies paying them for. I would hate to see in-work benefits vanishing, because for very many people those are the only way of recognising their needs in an increasingly pressured work environment.

Paul Gray: First, the growth of conditionality in the system predates universal credit. We have seen over the last 30 years from Governments of all persuasions a growing emphasis on a balance between expectations of claimants and entitlement. Universal credit takes that a little further, in particular in the concept of in-work conditionality, where the expectation is to encourage people to move up the earnings scale in order to achieve exactly the kind of objective you are describing, Lord Skidelsky, of having less dependence on the benefits system or what is now the tax credits system.

Secondly, while I do not disagree at all with your goal, when universal credit is fully rolled out it is important to recognise that roughly half the claimants will be in work. What are the causes of that? Notwithstanding successive movements in the minimum wage, low wages, as Gareth was implying, and levels of entitlement, particularly for families, are deemed to require significant top-ups from the system, in my view rightly. One might wish the world to be different, but at the moment it is not and that is one of the big challenges the system has to cope with.

Q54 **Lord Tugendhat:** Somebody quoted Nick Timmins during this inquiry. He said that, despite the terrible reputation of universal credit, it was true that there was no turning back. It was too late to do anything about it. First, do our witnesses agree with that assessment? Secondly, if they do, could they tell us by what criteria they think we should judge whether universal credit has been a success or a failure?

Gareth Morgan: It is too late to dismantle it, but not too late to reform it. On the question of its success and how it could be judged, it is about humanity. Does the benefit provide the support needed, delivered in a responsive and respectful way at a cost that recognises that we live in a society that all members should be able to fully participate in?

Paul Gray: I agree. That sums it up very well. If there was one thing I would point to, it would be to judge success or failure by whether the goal of getting people into the system in a humane and financially supported way was being achieved. As we said earlier, a journey has been gone on there, which has made some improvements. The question is whether it has gone far enough for that to be deemed a success rather than a failure.

Lord Stern of Brentford: My question follows very directly from that of Lord Tugendhat. If you had one or two specific reforms that you could suggest for universal credit, what would they be?

Gareth Morgan: I would be very happy to see it going back towards its original design and reformed by removing the unnecessary add-ons and constraints. The original design, with the rates that were proposed at the time and the kind of philosophy underpinning it, was very widely welcomed. If it were possible to remove the withering away and cutting away of a lot of the points that were beneficial, that would be my ideal.

Lord Stern of Brentford: Could you be slightly more specific or give examples?

Gareth Morgan: It will be a very long list, I am afraid. The two-child limit, the benefit cap, the constraints on housing costs and the way in which support for childcare is operated are all seen as penalising people within their normal living circumstances and family choices.

Paul Gray: There is not a lot to add to that. The bigger issues are not with the fundamental design of UC, other than the initial five-week issue, which we have talked about quite a bit. They are more issues to do with the financial parameters in the system and the levels of support. We have seen some restoration of early reductions. If we are in a position where some further relaxation of austerity could be afforded, combined with points we have made about making the system operate more smoothly and humanely, those would be the main areas I would look to.

Lord Stern of Brentford: One or two examples would help us understand which financial parameters you are referring to.

Paul Gray: The list Gareth just gave is spot on. The two-child limit has a particularly hard bearing on some of the most challenged families in the lowest part of the income distribution, so I would certainly point to that one. A completely different one, which we have not touched on at all, is the treatment of second earners in the system. That could well be looked at again. There is very little incentive in the system for second earners in a household to take on more work.

The Chair: That concludes our first panel of evidence. Thank you very much, Mr Gray and Mr Morgan, for giving us such comprehensive and helpful answers, and enabling us to make our first trip into cyberspace a success.