



# 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); Baroness Bowles of Berkhamsted; Lord Burns; Viscount Chandos; Baroness Kingsmill; Lord Livingston of Parkhead; Lord Monks; Lord Skidelsky; Lord Tugendhat.

Evidence Session No. 13

Virtual Proceeding

Questions 117 - 136

### Witnesses

**I:** Rt Hon Thérèse Coffey MP, Secretary of State for Work and Pensions; Neil Couling CBE, Change Director General and Senior Responsible Owner for Universal Credit, Department for Work and Pensions.

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## Examination of witnesses

Thérèse Coffey MP and Neil Couling.

Q117 **The Chair:** Secretary of State and Mr Couling, welcome to the Economic Affairs Committee. We appreciate that this is a very busy time for both of you, and we appreciate your taking the time to come and help us with our inquiry.

Perhaps I may begin by congratulating you, Secretary of State, and you, Mr Couling, on the way in which you have dealt with the avalanche of applications for universal credit as a result of the lockdown. All the evidence we have received and information from elsewhere has said what a credit it is to you that these have been dealt with quite speedily.

Universal credit was designed in the context of high levels of employment, but all the signs are that we are about to experience very high levels of unemployment as a consequence of the extended lockdown. How will universal credit need to change to cope with that?

**Thérèse Coffey MP:** Universal credit was designed for levels of high unemployment. I understand that it was derived from a paper entitled *Dynamic Benefits*, and a previous witness was one of its authors. When the White Paper came in—in 2010, although admittedly it did not get introduced until 2013—unemployment was about 8% and the employment rate was about 70%. There was not high employment at the time, certainly not the record levels we have enjoyed more recently.

The fundamental principles of universal credit are still there. You will be better off working than not working, unless you cannot work, and the combination of six legacy benefits into one was a simplification of the process, recognising that we were starting to marry in-work benefits with out-of-work benefits. I think it was estimated at the time that people were not claiming certain benefits to which they could be entitled. I do not see any need for the fundamental principles of universal credit to change now.

**The Chair:** I wonder how you will be able to make it operate, given the number of claimants. The system relies on people being able to receive advice and support. It is hard to see how, with the current numbers, it would be possible to achieve that.

**Thérèse Coffey MP:** One of the things we intend to do is recognise that we have effectively managed the initial peak of people coming on to the system. We did some streamlining of operations. As I think you intend to refer to later, aspects of conditionality have been paused. Nevertheless, we intend to recruit more people, recognising the larger number of people who will need our services—work coaches or people who manage claims. A lot of our focus needs to be on the wider labour market strategy, which we are actively engaged in accelerating, recognising the changing situation of our economy as a consequence of the recent coronavirus public health emergency.

**The Chair:** How many work coaches do you think you will need to recruit?

**Thérèse Coffey MP:** We have not quite got to that level of detail. I think we have about 13,500 now. There are different scenarios. I am not going to reveal all the different details, but we would probably be looking, in a worse-than-OBR-type scenario, at doubling that number. We still need to understand how the economy is going to reshape and bounce back, hopefully, or whether it is a slightly gentler glide back.

We anticipate that the interactions with universal credit claimants may be somewhat different from an era where we have had very low unemployment. Although vacancies are down, there are still vacancies.

One of the successes of the furlough scheme is that we have largely kept that attachment between employers and employees, and we now need to help those people, including the self-employed, to recover once they have gone through. Therefore, it might be a slightly different relationship from what existed in the past, but we are still working through aspects of that. I do not know whether Neil wants to add more.

**Neil Couling:** I wonder whether the last recession is a bit of a guide to us in that, originally, we set our plans for recruiting people up to a limit of 5 million unemployed—the forecast then. Unemployment topped out at about 2.5 million, so we stopped our recruitment part way through. I was leading some of that work then.

You play what is in front of you to some extent. As the Secretary of State says, we have plans. We think we might need to double at the moment, but it is highly dependent on the volumes we will face and will have to deal with.

**The Chair:** When you were planning on 5 million unemployed, how many work coaches did you need?

**Neil Couling:** They were not work coaches then; they were personal advisers and were doing a different task, but we were trying to recruit about 1,000 people a month and we had plans to do that for about three years. We topped off the recruitment after about 12 months as unemployment started to level out.

**The Chair:** You will be aware of unemployment projections exceeding 10%, so it sounds as if, given what is involved with the coaches at present, you will need more than double the number you have, given the reported evidence we have had of the stresses on them.

**Neil Couling:** There is a clear need to recruit up to the challenge we face, but at the moment there are lots of scenarios and people forecasting different levels of unemployment. Our job is to try to recruit to meet that need. That is what the department will do; it is what we did in the previous recession, and I am sure it is what we will do in this downturn as well.

**The Chair:** In his evidence to the Committee the Chancellor was quite clear: there will be a severe impact on employment before the end of this year, so to wait and see what happens before recruiting the people you need seems a bit slow.

**Neil Couling:** We are actively recruiting now. We are recruiting 2,500 people for, effectively, the universal credit case load, so we have not waited for anything to happen. All I am saying is that, if you are asking me for the exact number that we need by what date, that is much harder to judge. It is dependent on how the economy develops. I for one certainly hope for the kind of employer labour hoarding which the state has been supporting this time round. In the previous recession the great thing that stopped it going to 5 million was that employers decided to hoard labour, because their experience of the recession in the 1990s was that it was very difficult to recruit skilled labour once it was let go and those skills degraded.

I hope that employers, supported by the furlough scheme, will hoard labour in the same way they did during the previous recession. We are not dependent on that, but one of the reasons the Chancellor has put that scheme in place is to encourage employers to think not just about today's balance sheet but about the prospects for future growth for the companies for which they are responsible.

**The Chair:** Secretary of State, what is the point of the benefit cap in the current circumstance of high unemployment and low vacancies? Should it not be suspended or increased in value so that everyone is able to benefit from the recent increase in universal credit awards?

**Thérèse Coffey MP:** The benefit cap was introduced some while ago. It is still an estimate of what is deemed effectively necessary. In certain parts of the country people may be applying more for discretionary housing payment, and there is a nine-month grace qualifying period for those who have recently fallen out of employment where they might get some support and the benefit cap does not apply. I think we still have the right approach in maintaining the benefit cap.

Q118 **Baroness Bowles of Berkhamsted:** The crisis has put greater focus on questions of security, fairness and dignity for those living on universal credit. Will the department include new benchmarks, such as security, fairness and dignity, to address those concepts against which the success of universal credit can be judged?

**Thérèse Coffey MP:** Once universal credit was fully rolled out, the department ran a survey involving, I understand, about 16,000 claimants. Normally, it is half new and half change of circumstances, so that is where they may come on to universal credit and away from some of the other supports or legacy benefits they had.

It seems pretty positive. I think the survey published last year showed that about eight in 10 were happy. That coincided roughly with the

proportion of people who were happy with ESA, and for jobseeker's allowance it was about 84%.

I do not think there is any reason to change that survey and those questions. It will still be the same approach: asking whether people were satisfied or whether Jobcentre Plus staff were helpful. There will now be a slightly different relationship because of the removal of face-to-face assessments and similar things, but I think it is still valid to maintain those questions.

**Q119 Baroness Bowles of Berkhamsted:** The evidence we are hearing is that a vast and increasing number of people rely on food banks, and there is an increase in poverty, especially in child poverty. With the new batch of claimants because of Covid-19, things have been made more generous for them. If that generosity had been applied to others, hundreds of thousands of people would be in less poverty, so there seems to be a mismatch. One of the original objectives of universal credit was to reduce poverty. That clearly is not the case.

**Thérèse Coffey MP:** Universal credit was to bring together the six benefits and have a situation where you did not have cliff edges. Before that, the marginal rate was so high that it acted as a disincentive for working. I do not believe that is the case any more. I believe that, given the taper rates, which were reduced further a couple of years ago, it is fully the case that you will be better off working than not working when it comes to universal credit.

There are other aspects. The rate to which UC was raised—about £1,000 a year—means that the standard allowance is now approximately the same as statutory sick pay, as opposed to the differential that would be there with the legacy benefits.

The Chancellor acted quickly on a number of things to stimulate what was estimated to be about £6.5 billion into the welfare system. That was one of them. Alongside that, there was the tax credits uplift. That was designed to be temporary, while the local housing allowance has been put in as a permanent uplift.

**Baroness Bowles of Berkhamsted:** I do not think we disagree that what the Chancellor did was useful. The question is that, if universal credit was sufficient, that would not have been necessary. Is that not an indication that, with all the cuts and so forth, this has declined from its original benchmarks?

**Thérèse Coffey MP:** No. I have tried to share with you that one of the aspects was that by making that change it would make it similar to statutory sick pay. At one point there was a back and forth about behavioural changes and, if people went on to universal credit and it was considerably lower even than statutory sick pay, what it would do. This was a straightforward way to make that change, as well as that injection into the welfare system more broadly.

**Q120 Lord Burns:** We have received evidence that, while universal credit

improves working incentives overall, it is not clear that this is the case for all groups of claimants. In particular, the Committee has heard evidence that the incentive for lone parents and second earners to work more has not improved as much as for other groups under universal credit. The Committee would like to know your view on the extent to which it would be possible to improve the financial incentives to work, particularly given the large increases in unemployment that we might be facing.

**Thérèse Coffey MP:** My understanding is that prior to 2016 there was a range of different work allowances, which were scaled back and trimmed to focus on families with children, whether lone parents or couples, and people with disabilities. I think that last year Esther McVey was responsible for securing the funding to increase the work allowance to £1,000 so that eligible people could hold on to that before they started effectively going into that taper escalator.

I think that is a pretty generous approach. In view of the change in the number of people working, including women—a record high—I am not sure what further incentives the Committee would think appropriate, recognising that they all come with different costs in the benefits system.

**Lord Burns:** I think we recognise fully the issue of cost. You mentioned taper rates, which are high, although they have been reduced a bit. You say that people are better off working than not working, but that is not the test, is it? It is not a test we would apply to tax rates—that people should simply be better off working than not working if they face marginal rates of 63%, 65% or whatever it is. Has the department done any research on the point at which the taper rate begins to disincentivise more work? It is the sort of work that people have often tried to do with respect to taxation generally.

**Thérèse Coffey MP:** I am not aware that we have done any research; Neil might know, but the rates are certainly better than the marginal 90%-plus rates of the past and the scheme with which I am sure you are more familiar.

**Lord Burns:** That is certainly the case.

**Neil Couling:** Mike Brewer gave some good evidence to some of your previous hearings. It is certainly true that, for people at the bottom end of the earnings distribution, the value of an extra pound is probably greater than it would be for you or me, so improvements that you can make at the bottom end, which is what universal credit does for the majority of people, are certainly worth having.

I do not know of any work that can put a precise figure on the sweet spot. I suspect it would differ for individuals based on their personal circumstances and views around life, but it is true to say—David Cameron said this a long while ago—that people on low incomes face some of the highest rates of effective taxation in the country. Universal credit reduces those. It is clearly a political choice about how far you go, and a rather big economic choice because the costs are quite large.

**Thérèse Coffey MP:** We did make choices about things such as the personal tax allowance. Under the coalition Government there was a significant increase. We have delivered that. There are different things about taxation rates and what we did with the employer's allowance on national insurance. We have done a variety of things to try to help raise take-home pay by reducing government taxation on some of the lowest-paid people.

**Lord Burns:** We will come to conditionality later, but, interestingly, the question of whether conditionality works must be seen alongside the question of the incentives already in the system. At what stage does a high taper rate take you down the road of having to insist on conditionality?

**Thérèse Coffey MP:** I think that off the top of his head Neil can speak to some historical research, but I think it is pretty well recognised around the world that an element of conditionality in income support is important and effective. If we are coming on to that later, I suspect Neil might have a bit more to say.

**The Chair:** Are you really comfortable with the Government's policy that marginal rates of tax should not be higher than 45% because they disincentivise people from working and creating wealth, when the effective marginal rate of tax on the very poorest people is 63%? Surely that cannot be seen as fair, equitable or consistent with the view we take on taxation, on which Lord Burns's questions were focused.

**Thérèse Coffey MP:** As I say, we have significantly reduced marginal tax rates. There are other elements to help people on low income to pay less tax overall. I am comfortable with that. You will know that the OBR will not recognise the dynamic benefits of tax rates, but I am comfortable with our approach.

**The Chair:** I do not know about the OBR, but the Government's policy has always been, and it has always been argued, that lower rates incentivise people. That is why some of the highest-paid people in the country are not paying more than 45%, yet the poorest and most vulnerable people in the country are effectively paying 63%.

**Thérèse Coffey MP:** I am not sure they are on their overall income. I recognise what you say about the taper rate, which is 63%, but you combine that with things such as the tax allowance and tax rates that we have reduced.

**The Chair:** So what is it?

**Thérèse Coffey MP:** What is what?

**The Chair:** What is the marginal rate that they are paying?

**Thérèse Coffey MP:** When it comes to the universal credit elements, I fully accept that the taper rate is 63%, but every individual is different. One of the bonuses of universal credit is that we are not dictating what

income they have from other aspects. The amount of support you will get on universal credit will vary substantially according to your situation, so it is a more dynamic benefit that reflects your real-time earnings, but without question you are better off working than not working.

**The Chair:** But you will be worse off than working people on very high incomes.

**Thérèse Coffey MP:** I am not sure I accept that.

**The Chair:** It is based on how much of what you earn you get to keep. You accept that.

**Thérèse Coffey MP:** I do not accept that, but I accept that you believe that.

**The Chair:** How much of an extra pound that people earn they can keep is a matter of fact, is it not?

**Thérèse Coffey MP:** I accept that the taper rate is 63%. What I am saying to you is that I cannot tell you the exact percentage of tax people pay on their income when they are eligible for universal credit.

**Neil Couling:** This may be too nerdy an answer for everybody, but the marginal deduction rate is the reduction that you pay on any extra pound earned. You cannot infer from the marginal deduction rate what the overall level of reduction is, because that will be a compound of tax allowances, the effect of the work allowance and the interaction of the taper rate. It is difficult to answer that question, because it depends on people's family circumstances, as well as their position in income distribution.

**The Chair:** What would be the range?

**Neil Couling:** It would depend. Somebody on full universal credit not working at all has an MDR of 0%, because they are not working; they pay zero tax on that. As you move into the universal credit earnings taper through the work allowance, the amount taken back from you grows as a percentage. I have done a bit of work to average that out across the whole case load.

**The Chair:** Perhaps you could give the Committee a note on that.

**Neil Couling:** I can certainly have a think about—

**The Chair:** I accept the Secretary of State's point that it is not straightforward, but the principle seems to be that the poorest are paying more on the extra pound they earn than the richest.

Q121 **Viscount Chandos:** We have heard overwhelming evidence of the problems that have been caused by the five-week wait, which is a consequence of the assessment period. Is the monthly assessment period fundamental to universal credit?

**Thérèse Coffey MP:** Yes, I think it is. The majority of people in this country are paid monthly. We have some variations. Some people are paid 13 times a year on a four-weekly basis. Some people are paid weekly or fortnightly, but the majority of people are paid monthly.

**Viscount Chandos:** But is not a very high proportion of those in need of universal credit paid weekly?

**Thérèse Coffey MP:** If you compare it with the legacy benefits and people working with tax credits, about 70% of those are paid monthly, 13 times a year, four-weekly. We think that covers a significant majority of the people, recognising that this is a combination of in-work and out-of-work benefits.

**Viscount Chandos:** What aspect of the design of the assessment period cannot be changed?

**Thérèse Coffey MP:** I think you had one witness who seemed to think we could do it daily. I do not think that is feasible, but it is a matter of trying to have a combined benefits system for in-work and out-of-work. This reflects the majority of people in this country, including those who have sought support from the state through tax credits in the past.

**Viscount Chandos:** In trying to have the same system for in-work and out-of-work benefits, are you not saying that the universality that is sought to be achieved lies at the heart of the financial distress that the system has imposed?

**Thérèse Coffey MP:** I am conscious of the fact that you will have had various evidence about the initial waiting time. A number of things have happened in recent years. For people moving from one system to another we have had a two-week run-on of things such as housing benefit. More benefits are being brought online within the next 12 months.

For a lot of people who come into this brand-new there is an opportunity for an advance. For me, that is effectively a means by which over the year people have 13 payments of taxpayer support rather than 12, but that is still a perfectly manageable way for people to recognise that, if they cannot manage without some financial support in those first few weeks while the assessment is made—the basis of the dynamic system of universal credit—we can reach out to them. I think we have helped well over 900,000 people with an advance, and the vast majority of those have been paid within three days. Therefore, when people do need that financial support, we have been able to deliver it.

**Viscount Chandos:** But the advance, as the name suggests, is repayable. Do not some of the problems we are seeing with universal credit arise from the carried-forward debt from tax credits? Are we not in danger of compounding that problem?

**Thérèse Coffey MP:** The advance effectively means that you end up having 13 payments instead of 12 over the year. We are making some changes so that if people want to they can have the effect of the advance

spread over two years. That will be coming in from about October 2021, or 18 months' time. If they want to, they can spread that initial need for financial support over a two-year timeframe instead of the current 12 months.

On debt from other legacy systems—credits or housing benefit—in many ways I wish HMRC was a bit more effective in making sure that there are not such big levels of debt for people on tax credits, but I am conscious of the fact that it is taxpayer support being given to people with an expectation that, if people got more than perhaps they were originally entitled to, they would pay it back. Ultimately, it is in one way or another a debt to the taxpayer.

I am very conscious of the debt transfer from tax credits. I recognise that we managed to get the Treasury to spend any of that debt transfer for the first few months of universal credit, but I stress that any deduction that can be and is made in a normal case has recently been reduced to 30% of the standard allowance and is not money that you might get for children, housing support or other things. We intend to make that fall to 25% in the future, next year as well.

**Viscount Chandos:** Mr Couling, I read the Twitter chain that you wrote on this point in February. I would ask you the same questions I asked of the Secretary of State, perhaps in a different way. Do you regard the problems that have arisen in payment delay, whatever has been done to try to mitigate them with advances, as an acceptable cost of having a system that is designed for both in-work and out-of-work benefit?

**Neil Couling:** I mention two things to the Committee. Most countries in Europe pay their benefits a month in arrears: only the Republic of Ireland does not. We probably have an issue about adaptation to our new system, which is why we have put in additional help such as running on some benefits or stepping stones to universal credit for existing claimants.

If you want a system that incentivises work—the exam question I was set by a Secretary of State nearly 10 years ago was to design such a system—you need to avoid barriers between out-of-work and in-work. Under the old system there was a barrier between people moving between non-work and work.

**The Chair:** What about Scotland?

**Neil Couling:** Scotland pays monthly in arrears. Scotland pays half your money at the end of the month, and half way through the next month, if you elect to do so—about a quarter of people do—they pay the other half. So they pay later in Scotland, because they perceive that helps people to budget, but it does not change the fundamental monthly design, which you have to have if you are to take earnings into account, because you can, after a fashion, fit weeks into months but you cannot fit months into weeks.

**Viscount Chandos:** Perhaps I may finish with a question for the Secretary of State. In the light of the evidence of how universal credit has worked over the past 10 years, do you think the exam question set for Mr Couling 10 years ago was the right one?

**Thérèse Coffey MP:** Yes. One of the elements of legacy benefits—it may not have been the original intention—was that it ended up being no longer fit for purpose with different ways, different claims and multiple things. This was designed to be more effective and, for some of the people who were not getting all the benefits, a way to make sure that they got the benefits to which they were entitled. I believe it has been a success.

If you think operationally, the digitisation of universal credit has been an enormous success. One of the reasons is that, as well as the brilliant work by DWP staff and contractors to make it work, if we had been relying on some of the old elements it would have fallen over, and people's finances would have fallen over. The idea that you could have had the same number of individual housing benefit claims, jobseeker's allowance and this, that and the other would not have worked.

I think that, overall, this health emergency has shown universal credit's massive strengths in supporting people who are in work, because we recognise that for those who have seen their number of hours reduced but who were already on universal credit their income would have gone up automatically, dynamically, as a consequence of the design and monthly earnings, as well as new claimants getting support, perhaps not initially in the way they anticipated.

Lord Forsyth, I am conscious that I might have a Division fairly soon, but Neil is well equipped to carry on and I can trust him to do so.

**The Chair:** We have anticipated this problem and identified the questions that are less policy related and political. With your permission, we will continue with Neil until you can come back if there is a Division.

Q122 **Baroness Kingsmill:** Do you agree that universal credit is very much dependent on timely and accurate RTI?

**Thérèse Coffey MP:** It is certainly helped by that; that is true.

**Baroness Kingsmill:** From the evidence we have heard, it seems that in quite a lot of cases the system does not account for the differences in the way in which people work these days, in the sense of their not necessarily being in consistent work. I wondered whether the department is aware of the difficulties that inaccurate RTI causes.

**Thérèse Coffey MP:** We come across this at certain points in the year where there is often a challenge. In particular, we seem to see it a lot at Christmas. One of the things about having a monthly system is that, where people go in and out of universal credit payments, over the year that will be equal. I remember once being briefed that quite often people who get 11 universal credit payments a year end up with slightly more of

the annual total than people with 12, but we have to keep the system going given the fact that the majority are paid monthly, and overall it is quite rare for people to lose out, if at all.

**Baroness Kingsmill:** Secretary of State, I do not think that is true. It is very important that that information is updated, if that is the information you are getting. We are hearing of quite severe cases where people on zero-hours contracts, for example, are suffering. It also seems that the system is predicated on administrative efficiency rather than meeting the needs of people.

Perhaps you are not getting the proper information, or the system does not allow you to be more flexible to meet people's very real needs, especially those who are at the bottom end of the income scale. For them, what they get over the years does not matter; it is what they get this week that matters. I am wondering whether the system does not have flexibility to take those circumstances into account.

**Thérèse Coffey MP:** Universal credit is dynamic, and the dynamism comes largely with the change in earnings that people will experience, so for people on zero-hours contracts with variable work this system kicks in when money goes up or down. When people earn more than the norm, a buffer accommodates that; universal credit does not get sliced off entirely in one go. Neil might be better placed to describe some of the agility of the system and how that works in practice.

**Baroness Kingsmill:** I am sure that is the case. Would you like to take over, Mr Couling?

**Neil Couling:** The Committee saw me disappear for a second. I have gone to a place in my house with better reception, so hopefully that helps a bit.

On the RTI dispute, we did 23 million UC calculations up to January 2020. Of those, there were 20,000 disputes, which indicates 0.09% inaccuracy coming through RTI. There are issues there. I fund a team inside HMRC to try to help employers understand how to record their RTI correctly so that these things do not happen, but I am very happy with the way RTI is performing for us, and where the RTI is wrong we correct somebody's claim on that basis.

**Baroness Kingsmill:** Are you satisfied that you are responding to those claimants fast enough, because that is certainly not the evidence we are getting?

**Neil Couling:** It does take a while, because you have to check with the employer. Of the 100,000 cases raised with us, only 20,000 were changed, so there is a high level of misunderstanding among claimants as well as what has happened.

As the Committee is aware, not surprisingly the furlough scheme is increasing the number of queries. Employers are not always recording RTI properly there. My colleagues in HMRC are doing quite a lot of work

with employers to help them record properly, and we are correcting people's UC claims as fast as we can off the back of that.

**Baroness Kingsmill:** You would acknowledge the hardship that can be caused by this.

**Neil Couling:** Certainly. That is why we proceed as fast as we can, commensurate with employers and HMRC working quickly on these cases.

**Lord Livingston of Parkhead:** I think we may have lost the Secretary of State.

**The Chair:** The Secretary of State has gone for a Division, but I think there is a question for Mr Couling.

Q123 **Lord Livingston of Parkhead:** Mr Couling, perhaps I may first echo the praise for the incredibly hard work of your team and credit for the flexibility of the system. You have managed to cope with such a rise in claims with comparably little noise. That does not come without a lot of hard work and flexibility on the part of your team, so please pass on my praise to them.

May I return to a point on which Lord Forsyth touched briefly—the possibility of more flexible payment periods? I think the Secretary of State commented that the majority of people are paid monthly. Some statistics I saw show that, while that is true, if you look at UC claimants, you see that in their previous jobs 28% were paid monthly. Are we in danger effectively of trying to solve for a population that is not representative?

I understand that we want to make UC like work, but if “like work” for the substantial majority of claimants is weekly, two-weekly or four-weekly, should we not be looking at more flexible payment methodologies? Has the department considered whether we could offer weekly, two-weekly or four-weekly payment methodologies, accepting that the assessment period has to stay at a month?

**Neil Couling:** The assessment period and payment frequency are different things, as you highlighted at the end of your question. In Scotland, they pay later but at a higher frequency. People choose; it is called Scottish choices. We administer the system for them on that basis. I think it helps with the budgeting problem, but as I think you pointed out at the start of your question it does not help with the fact people are paid at different frequencies by employers. In that sense, you need a month, because, somewhat inelegantly, you can divide weeks into a month—every third month, people have argued—but you cannot divide months into weeks, which is what you would need to do.

You also have the problem that in some families you have a weekly-paid person and a monthly-paid person, so what would your assessment period be for that group? It is just too complicated to do that. I think Mike Brewer explained this to the Committee rather well. You can have an annual assessment period, which is what they have in tax credits, where you have a problem of overpayments and recovering money from

people, or big underpayments; you go for a weekly assessment period, which means you cannot cope with the frequency of earnings; or you plump, as we did in 2011, for a monthly assessment period. I could pay universal credit more frequently on the basis of that assessment, but it would not help you with somebody who is paid weekly or fortnightly.

The data you quoted have, I think, been somewhat discredited. When you look at the tax credit data, which are basically for the people who will be on universal credit, and you look at universal credit data, you see a very similar pattern: 28% of people are paid weekly under both tax credits and universal credit. The majority, 57%, are paid monthly, with about 12% being paid four-weekly and about 3% fortnightly. That has been mirrored between tax credits.

I think the data you allude to come from a study done by Lloyds Bank of some people who had Lloyds Bank accounts. It was not a representative sample of the UC case load, so it is a bit misleading, although obviously not deliberately.

**Lord Livingston of Parkhead:** It is now a little bit aged, but it would be interesting to see exactly who the new claimants are. I take issue with you a little bit on what it helps. This was not an assessment period question. For instance, if you are paid weekly and are used to budgeting weekly, carrying on getting your money weekly may be a help, so it may make a significant difference if at least you are offering people the option, as is done in Scotland, as you say.

There are some who say that the whole process of monthly payments takes a while to get used to. They have to deal with the rent, which may be paid on a different basis and so on. Has the department looked at that? Has it said, "We can do it but do not want to", or, "We do not want to do it"?

**Neil Couling:** We already do it. Two per cent of claims are paid twice a month in the rest of Great Britain.

**Lord Livingston of Parkhead:** Through the special process.

**Neil Couling:** It is called more frequent payment. We use that system effectively for Scotland, but in Scotland you are allowed to elect to have that. In the rest of Great Britain, it is a discussion between the work coach and claimant to see whether there is a particular vulnerability.

The reason we prefer to pay people monthly and try to settle people into that cycle is that that is predominantly the way they will be paid when they go into work. We do not want going into work to be a barrier; we want all the differences that come with work to be as much in universal credit as they are in the world of work, so coping with monthly budgeting is what you will need to do if you are to be paid monthly. That is why we do it.

**Lord Livingston of Parkhead:** If you have some data about the people who come out of universal credit and the work they go into, whether that

is paid monthly or weekly, or you have data that say it is predominantly monthly, I would have some questions about that. I understand that the objective is to mirror work, but our challenge is: does it really? If you have data you could let us have to show that is a large proportion of people, that would be helpful.

**Neil Couling:** I think we have published this before. Of the people currently on universal credit who are in work, 57% are being paid monthly by their employers.

**Lord Livingston of Parkhead:** That goes to the next question I was going to ask. The 57% is obviously the majority, but it happens to be a fairly small one. One of the challenges of UC generally—you or the Secretary of State referred to 80% of people being happy—is that the edge cases are difficult, and there is quite a lot of them. The management of edge cases seems to be a real challenge and the system does not seem to want to play. How much of it is policy and how much is the practicality of the system and the system just cannot do it? The two-weekly, four-weekly and once-weekly are a case in point. Effectively, 43% of all claimants still have a mismatch between how you are paying them and how they will be paid later.

**Neil Couling:** There is no easy way round that. To go back in time to my role as a policy adviser, you cannot optimise a benefits system. You will get people on tax credits who say, "I much prefer the tax credit thing because it averages my earnings across the year. That was much easier for me than the universal credit system". You cannot have everything; you have to decide where you put your fundamental stakes in the ground. I have lost everybody.

**Lord Livingston of Parkhead:** We hear you.

**Neil Couling:** Everybody stopped moving. Either I am very boring or it is just the time of day.

**Lord Livingston of Parkhead:** We were listening in awe.

**Neil Couling:** It is impossible from everybody's individual perspective to optimise the system. In explaining design options to Ministers, I was very clear that that was the case. We have designed a system that works for everybody; it works very smoothly if you are in stable monthly employment. For people who are in weekly-paid employment, it has a bump every three months in the number of pay packets we take into account. If you calculate the money involved, they are marginally better off by the way we deal with people's earnings in that way than they would be if we averaged it across the whole period. If you average it across the period, you build in delays to payments and the need to reconcile overpayments and underpayments each time.

We wanted a system where people could see a gain from doing extra work. That was one of the design principles Ministers gave me. They wanted to make it visible that if you do more work you have more money

in your pocket at the end of all this and after the universal credit taper has woven its magic.

**The Chair:** I know Lord Skidelsky wants to come in on this. Lord Monks wants to ask a question, but it might be better if the Secretary of State is present to deal with that. With your permission, may we turn to Lord Skidelsky?

**Lord Skidelsky:** Mr Couling, do not all the difficulties that have been described about the waiting period stem from—

**The Chair:** Lord Skidelsky, you are breaking up. Let us move on to Lord Tugendhat.

Q124 **Lord Tugendhat:** Perhaps I may ask a question before I come to the one I am scheduled to ask.

We talked about levels of unemployment. To what extent does the witness believe—I wonder to what extent the Secretary of State believes—that the nature of the unemployment in the coming recession may be different from that in previous recessions owing to the very differential impact of the lockdown and closures on different sectors of the economy? It seems very likely that some sectors of the economy will take much longer to recover than others. I wonder whether that factor has entered into the department's calculation.

**Neil Couling:** It certainly has. Every recession is different from the one that preceded it in terms of the labour market impacts on it. This one will be no different from that. We are currently seeing a much higher percentage of claims in London and the south-east and south-west compared with the north of the country. It is normally the other way round. Some sectors are particularly badly affected. I do not need to tell all of you that hospitality is very badly affected. It appears that younger people are more likely to work in the hospitality sector. They may be more disproportionately affected, so clearly there will need to be policy responses that respond to this slowdown in the economy rather than the previous one we had. I know Ministers are actively considering options around all that.

**The Chair:** Lord Tugendhat, before you ask your question, may I go back to Lord Skidelsky, because I think he has now come back online?

Q125 **Lord Skidelsky:** I want to establish your philosophy of this scheme. It seems to me that we are talking a lot about the difficulty of the waiting period. It is very complicated and there are different requirements. Do they not all stem from the fact that claimants are not able under the scheme to claim from day one, in other words from the moment they become unemployed, because that would elicit a payment on day one, but that is not the criterion? The idea of the scheme is to get them back into work and you need to keep an incentive of one kind or another. That dictates the problems of the waiting period; it dictates the fact that you have to have a waiting period. Is that accurate in your view?

**Neil Couling:** Not quite, if I understood the question. The legacy system has seven waiting days before you derive any entitlement. There are no waiting days under universal credit any more. Entitlement starts from day one; it is just paid after a month and then seven days. I will go into the reasons for it if you are interested.

**Lord Skidelsky:** Is that not a semantic point? You are entitled to it, but you will not be paid for a month or five weeks.

**Neil Couling:** I know Peers are not remunerated in the way others are. When I start work, I do not get paid a month in advance; I get paid after I have done a month's labour. The benefits system, even the legacy system, works on that basis. For the jobseeker's allowance you had seven—

**Lord Skidelsky:** What is the labour involved in your month's wait? I am interested in the analogy. You are not paid until you have done your work.

**Neil Couling:** We talk about work search being a full-time activity. When we have conditionality operating—we do not at the moment—we ask for 35 hours' job search a week from claimants of universal credit. Therefore, the mentality mirrors the world of work. You are paid after you have done the work, not before you have done it.

The legacy benefits system does not pay people in advance. That is one of the myths that has grown up. It does not do it with jobseeker's allowance, employment support allowance, income support, housing benefit or tax credits. People are not paid in advance; you are paid after a period of time. What we have done is to try to synchronise that more with the predominant world of work. That is a policy choice, but that is the choice we have made.

**Lord Skidelsky:** You have made the policy choice very clear.

**The Chair:** Lord Skidelsky, I think you were going to ask about split payments.

Q126 **Lord Skidelsky:** We have heard evidence that the requirement for arranging a split payment by disclosing abuse is neither realistic nor safe. Do you agree? What steps are being taken to make it easier and safer to request a split payment in circumstances of domestic violence or financial mismanagement?

**Neil Couling:** I think I got the question. Split payments can be used in a domestic violence situation. I have personally always doubted their efficacy in that space particularly. Clearly, they might work for one individual, but giving some of the money to one individual in a household while the other individual may be violent does not strike me as a way of decreasing the risk of that violence. Some of the organisations that seek to protect people from domestic violence acknowledge that, too.

On splitting payments more generally, it is not done in the legacy benefit system. We do some split payments, but they are for circumstances, say, where one member of a couple is an alcoholic and—I shall stereotype that person to “he”—he will drink all the benefit money. I used to split payments back in the 1980s when I had a real job processing benefits. You would give him a little bit of the pocket money so he could go down the pub and give the lion’s share of the entitlement to the mother so she could budget for the children and keep a roof over their heads. So split payments exist in the system for those situations, not for domestic abuse as we understand it, with violence from one partner to another.

The Scottish Government have split payments as one of their flexibilities; they are allowed to make a policy that is different from the rest of Great Britain, but it is a very difficult policy to conceive because of all the circumstances that I was just talking about. What is it that you would like to happen in those circumstances? It is also very difficult to operationalise such a policy. The Scottish Government have been wrestling with this for some time, and we have had some discussions with them about how they might configure a policy, but they are yet to reach conclusions, I think, because it is very difficult.

To my mind, it is not widely understood what split payments are for, and it has become a bit of a totem for some to say that the payments should be split whatever.

**The Chair:** Mr Couling, you are frozen. Lord Skidelsky, does that deal with your question?

**Lord Skidelsky:** I do not have a supplementary; thank you.

**The Chair:** It seems from listening to that answer, Mr Couling, that again and again difficult circumstances just have to fit in with the system, rather than the system being designed to help people in difficult circumstances.

**Neil Couling:** We do make split payments; they can be made in the system, and they are there. I was addressing the general idea that it would be wonderful to split payments completely. I was just going on to say that 60% of payments already go to the woman in the couple rather than the man, so, if you did split payments, you would be removing money from women to men. I do not think that is understood either, in the general debate here.

**The Chair:** Lord Tugendhat, we can come back to your question now.

Q127 **Lord Tugendhat:** My question is somewhat similar to what has gone before.

The Committee has heard quite a lot of evidence that the single household payment risks the safety of women and fails to protect victims and survivors of domestic and financial abuse. First, does our witness agree with that proposition? Secondly, is it possible to pay childcare costs up front? We are often dealing with very difficult and dysfunctional

families. Does the witness accept, first, the problem and, secondly, the possible solution?

**Neil Couling:** There are two questions wrapped in one there. I think I tried to answer the first question before. Certainly, some charities and organisations representing domestic violence victims have suggested that the absence of splitting payments generally puts women at greater risk. There are other organisations that have said that, if you split the payments automatically and if violence is going on in the household, it might exacerbate the situation rather than make it better. They live in the same household, and if it is a “he”—and it normally is—he will know that she gets money on the same day as he does. How is splitting the payment going to help the situation? It is a gross simplification to suggest that somehow it is a magic bullet for domestic violence, which is a criminal act and needs to be dealt with by the criminal justice system. A benefit system cannot fix that problem; it is just too much to ask of a benefit system.

There is an issue about making childcare payments up front. They are made up front in the tax credits system, and you have a large measure of fraud and error loss from it. When we were designing universal credit, the advice we got from HMRC was not to pay childcare costs up front but to pay them on the grounds of seeing receipts, because, otherwise, you get a level of fraud and abuse in the system. That was a design choice that we made.

There is the flexible support fund. If you cannot make that first month’s-worth of childcare payments, you can apply to the flexible support fund, which can get you an up-front grant allowing you to pay childcare providers and get you into a cycle of payments. That is how we have tried to deal with that problem. If we paid them up front, we would reintroduce that fraud and error risk, so we have the flexible support fund and then pay on receipt of evidence that the costs have been incurred.

**Lord Tugendhat:** You said there is conflicting evidence from charities. Do you have a view yourself? The department has seen a great deal of what happens. Do you have a view yourself on whether the women—as you say, they are usually women—are placed at greater risk?

**Neil Couling:** I do not believe that this is placing them at greater risk. As a department, we have domestic abuse specialists in all our jobcentres. People are trained to look for signs of abuse, and we have referred people on to organisations that are better skilled and equipped to deal with the situation, which, as I have said, needs a criminal justice response. The benefit system cannot solve this problem.

**The Chair:** Thank you for that—and welcome back, Secretary of State. Well done for getting back so quickly. I gather the queue went down to Portcullis House.

**Thérèse Coffey MP:** There may be more votes, Mr Chairman.

**The Chair:** May we go back to the question from Lord Monks, which we

have kept for you because it is a policy matter?

**Q128 Lord Monks:** This is on the five-week wait, of which we have discussed aspects. We have had a succession of witnesses talking about all the problems this causes, particularly for the most vulnerable claimants—people in one-parent families, on zero-hours contracts, and so on. We have been quite moved by some of the testimony that we have received. You have mounted a pretty vigorous defence of it, and I can see the administrative need to have a scheme that is fairly universal in some ways. Are there other ways in which its effect can be civilised and made a bit kinder than it is at the moment?

What is your view on what Nicholas Timmins in his evidence to us called a “silver hello”, a welfare payment, not repayable, to cover that first period? That would stop people in increasing numbers ending up at food banks and in increasing problems with debt, from which they take a long time, if they ever do, properly to recover, especially if they or somebody in their household owes money historically on tax credits.

What are the chances, Secretary of State, of making this a bit kinder and giving people a grant to set them off that is not repayable? Students are getting away with quite a lot at the moment, but the unemployed are getting away with very little.

**Thérèse Coffey MP:** On making an advance or a grant, I have tried to explain that I see the advance as a way for those who do not have immediate access to cash effectively to spread what they might normally expect over a greater number of payments. I am conscious of the fact that a lot of people do not apply for advances. As a consequence, you could say that they would get less money, even though they are in exactly the same place as others, simply because they have not done that.

I would like to stress one thing—and I do not have particular research on this; it is more anecdotal. Neil was one of the people talking to me about this challenge earlier on, when I became Secretary of State. Quite often, you see particular hardship is where people have not come to get help from universal credit quickly enough. They may have left work and may think they can get back into it in a couple of weeks’ time, or they might have had some other payment. I am not going to pretend otherwise; I think that UC has been given a bad reputation, and a lot of people want to stay away from the benefit system more broadly. I would rather encourage people to come and find out first whether they are eligible for help, rather than when a rental payment has gone by. There is a risk of people getting themselves quickly into a spiral of debt if they do not seek help early on.

What do we do to try to help that? First, we try to promote universal credit. One thing that I am considering as an active policy is for people seeking advances to have an immediate referral—for example, to the Money Advice Service about aspects of budgeting. We have already made some changes which will be coming through in future about extending the repayment so that, as people can see advances being paid, it is spread

back over two years—so having that slightly lower payment for 24 months rather than the 12 months under the system now.

I am not anticipating the need for extra money at the start of a claim, apart from what we have already introduced. I know that some MPs on the Labour Benches do not think that that is the best use of money, to have that sort of run-on of jobseeker's allowance in the future and housing benefit right now.

One thing that I am keen to do is to ask people, when they are stuck, to come to get help quickly. That would ease a lot of the issues that people face. Neil has more experience of this, but that was one of the telling things that stuck with me early on as Secretary of State and led me to try to initiate some campaign about trying to make universal credit what it is—a way to get support quickly to those people when they need it most.

**Lord Monks:** I appreciate much of what you have said, but there is a need to give some sense of security to the claimant. You mentioned the run-off arrangements made in other areas. In fact, it only really leaves new claims and transfers from tax credits that are not covered by some run-off arrangements. I wonder whether the scale of what might be brought in to make the scheme kinder is too forbidding and too big a problem. I suggest to you that it is manageable within the context of the budgets overall for universal credit.

**Thérèse Coffey MP:** But people are getting their universal credit. As I say, they get the money for which we have done their eligibility test. In effect, if they take an advance, they get 13 payments over 12 months rather than 12 payments. It is about trying to be fair to all benefit claimants and, indeed, fair to taxpayers about what we think people are eligible for, when we calculate our benefit system. We know that with universal credit it will fluctuate over the year depending on other sources of income, reflecting the fact that it is an in-work benefit approach as well.

I am afraid, Lord Monks, that you will not persuade me of the desirability of adding extra money in an extra payment at the beginning in what you would call a grant when, actually, the money is there and available, but spread in 13 payments over the year instead of 12.

**Lord Monks:** Let me try a different tack to test your generosity in this area. When Sir Iain Duncan Smith was before us, he talked about whether it was possible to write off some of the historic debts that come from tax credits. What is your view of that?

**Thérèse Coffey MP:** Sir Iain was very ambitious and took a lot of brickbats to get this dynamic benefit system into place, and I think he deserves huge credit. At one point—I think in 2016—he then made that deal about when people move from one system of taxpayer support to another, so money that they owed from before would still be owed in future. I recognise what you say about historic debt, and I welcome the Committee's thoughts on that. I am a member of the Government and I

am not ducking this, but, as it stands, the Treasury has come to the conclusion that writing off debts of taxpayer-supported credits, even if they may be historic, is not the basis on which to run a benefit system.

**Lord Livingston of Parkhead:** Secretary of State, I want to come back on a comment that you made. You said that, if somebody needed some help for the first payment, you would like to give them help with budgeting as well and that it was an education process. I understand that from the point of view of monthly payments, but to go to a question I asked when you were in a long queue to vote, if you happen to be someone who is paid weekly, as a number of people are, it is actually not a budgeting question. If you are used to being paid weekly and you have to wait five weeks to your next payment, you do not have the money.

I appreciate that there is some element there of the loan repayment, but do you not feel that you have to recognise that it is quite different for people who come on to the system who have been paid monthly and who will often have some sort of final payment when they leave work than for people who have been paid weekly? Has there been any research into the different responses of people who come into it from a prior job that was paid weekly?

**Thérèse Coffey MP:** I do not know whether there has been research. For the 12 years that I worked at Mars, I was paid weekly. It is a different dynamic, no doubt, and moving to a monthly payment is a different challenge, because you will have arranged various bills during the month to match your inflow, and so on. It is not conditional, but having open that ability to access the Money Advice Service to have that sort of help, to help people to readjust some of their cash phasing, is an important offer that is available.

I do not know whether you have had the chance to discuss this, but I am very conscious of the support that was given. A change was made in the system, so it was no longer done through local authorities, from what was broadly termed universal support to the Help to Claim approach, which we have done on a national scale, and we are still testing what does and does not work. I see that as a powerful way for people to be signposted to appropriate support as they make that shift.

I do not know whether Neil has covered this. When we make changes away from the monthly system, that starts to introduce a lot of manual interventions. There are certainly examples of where we have made adjustments to the frequency of payment, but that is done more on the basis of whether people are really vulnerable or really can cope. The principle of the process has been that we try to get people more on to that monthly system, which is more reflective of the world of work for most people.

**Lord Livingston of Parkhead:** For some, yes.

Q129 **Baroness Bowles of Berkhamsted:** Secretary of State, I think we are continuing on the whole issue of cash phasing, as you have described it.

We have received several pieces of written evidence suggesting that the housing element could be dealt with separately. I know that it can be when there are already arrears, as an exception, but why could that not happen more routinely, in a way to roll up some of the supplementaries all at once, so it is a bit more comprehensive?

A point also made is that the payment of universal credit does not reflect work because it is fixed to the day on which you get your first payment after the five-week wait. If that happens to be the fifth of the month, when the monthly cycle of bills tends to be biased towards the end of the month, it just does not work. We could at least have the security of the housing payment going directly to the landlord as an option, not once people have got themselves into difficulty. That is seen as a valuable automatic option.

**Thérèse Coffey MP:** The learning from the early rollout of the scheme—and, again, Neil has the history—was that the certainty of when the money was going to come was very important to people, that it should not be late and that they could manage with it being a day or so early. I am conscious of what you have said about the day when you make your claim being basically the starting point of the timing of your payments in future. I do not expect everybody to know that precisely, and I am not pretending that they can automatically make changes.

There has been a general resistance. One element of this is about getting people into aspects of readiness for work and not having other people pay your rent for you. I am conscious, by the way, that for a lot of people it is not all the rent that they get paid. Because of it being an in-work benefit, the amount of housing benefit or that part of the allowance may be less. Neil can explain some elements of that, but we have introduced some alternative arrangements which are available to people who really do struggle and need that extra support.

Will Quince has introduced a new scheme very recently, which I think will be communicated to MPs and Peers fairly soon, related to where there have been challenges in making this happen, and where we have been able to make it more of an online process to help with that. There have been about 2,500 submissions since that has happened. Somebody has just passed me a note: apparently, it is a direct rent payment. But I am not going to say that we want to revert to the default that we had before, because you end up with a situation where we have people in or out of work, depending on what accommodation they are in, and it is an added complexity. We want to be in a position to help people to become financially resilient to help them. Ultimately, my desire is for people no longer to need universal credit in future. That is one reason why I commissioned the In-Work Progression Commission.

**The Chair:** Mr Couling, do you want to comment very briefly on this?

**Neil Couling:** Forty per cent of people in social housing are still having their rent paid direct. One of the learnings that we took from the early rollout was that claimants did not realise that they were responsible for

their rent. We often had rent not being paid from universal credit because the claimants did not realise, because for years they had been having their rent paid by the state. One change that we were trying to bring in was to make people realise where costs were, because when they go into work, they are going to have to pay their rent.

**Baroness Bowles of Berkhamsted:** I understand everything that is being said about trying to get people to budget as if they were in work, had a regular amount coming in and were able to do so. However, I am sure from what you said previously that you have seen some of the evidence that we have received, especially for those people in work with a variable amount of work, on how the cycle of payments that they get is very volatile over time. It fluctuates from having a big amount one month to a smaller amount next month, and it is very difficult for them to have a handle on their expectations. When you are operating at the margins of low income, it becomes much more difficult to say, "I can put this away". Even with the best of intentions, they are still getting surprises with an unusually low amount coming in in some months. It is the combination of when the payment is and the volatility in the total amount.

**Thérèse Coffey MP:** I stress that alternative payment arrangements where payments can be made to the landlord are available, but we do not want to make that the default. It is there for those people who really struggle in managing their rent payments and rent arrears. It is not that we are just saying no to everybody; it is not that a computer says no—far from it. But it really needs to be the exception rather than the rule. The Bell has summoned me, but what I learned from the last vote is that so many people are busy taking photos and tweeting videos it is making the votes a bit slower. I will give it a few more minutes, but then I will have to go.

**The Chair:** In that case, Baroness Kingsmill, would you like to ask your question now, because I think that you will want the Secretary of State to pick up on it, as it is a policy matter? Baroness Kingsmill. No? Secretary of State, I understand that you have to go and vote. Baroness Bowles has finished, so now it is Lord Burns.

Q130 **Lord Burns:** At the outset, it was argued that universal credit could help to tackle poverty by increasing employment, and the business case for universal credit relies heavily on the potential employment gains. The natural question that follows is whether we can tell that universal credit has led to increased employment. We know that we saw a marked increase in employment until the virus crisis struck. The question is: is it that straightforward? We have received evidence that says that it is really very difficult to be confident about how far universal credit has directly increased employment or hours of work, not least because it has not yet been rolled out in full. Does the department have any evidence that the introduction of universal credit has contributed to the general rise in employment in the pre-virus period?

**Neil Couling:** We have done three studies that have been peer-reviewed by NIESR and the IFS, where we compared outcomes for people on JSA

with those for people on universal credit, and the three studies showed a gain or increase in employment of 4%, 8% and 4% respectively.

The difficulty is that I cannot prove that 200,000 more people will be in employment at any one time, because I cannot create, as you will know, a counterfactual for the GB economy, whereby I can run the old system in the GB and one in the UK. There has been a rather tiresome argument, prompted by the NAO report although not by the NAO itself, as it understands this issue, that somehow, as you can never prove it, the employment effect will not happen. If that was the case, you would never invest in a road, a bridge or a railway because we cannot judge those employment effects either and you do not have a counterfactual for when the road or railway is not built at that point in time.

We have a detailed labour market evaluation strategy, and we are working with economists and statisticians from outside government to give the very best estimates we can of the employment effects of universal credit, in an effort to try to judge whether the investment has been worth while.

**Lord Burns:** To widen the question, similarly, is there any evidence about the impact on poverty, in terms of the ambition of wanting to reduce poverty?

**Neil Couling:** Again, it is not widely understood that universal credit, before the Covid increases in benefit rates, was going to spend £2 billion more than the legacy system it replaces. You are already seeing a gain from universal credit relative to the benefit system it replaces.

Often, there is a lot of focus on the notional losers, but there are millions of people—and the IFS has been clear about this—who gain from the introduction of universal credit. In general, renters do better on universal credit than under the previous legacy system, partly because of the way in which tapers on housing benefits and tax credits interacted to produce those very high MDRs that we talked about an hour or so ago.

Q131 **Viscount Chandos:** You answered questions, as did the Secretary of State, that the Chair asked at the beginning, about the increase in the number of work coaches, so I shall not go down exactly the same line. But I would like to knit it with the responses that you gave to Lord Tugendhat about the increase in unemployment and the nature of the recession, which you acknowledge was likely to be different, as every recession is, from the previous one. In the light of the number of job vacancies that there may be over the coming six to 12 months, what do you see this increased number of work coaches actually doing?

**Neil Couling:** An interesting thing about labour markets, even in times of great stress, is that there are jobs available. At the moment, with work coaches, we are not applying any conditionality—I do not know whether there will be questions about conditionality later. We are not applying any conditionality at the moment, but we are providing work search help to people. We are ringing up claimants and pointing out vacancies that exist

in their localities. There still are vacancies in and around the UK economy. The numbers have massively reduced, and the latest ONS data shows some of that. But it is true to say that, even in the depths of recession, there are jobs available, and a public employment service such as Jobcentre Plus will want to try to direct claimants towards those where we can.

Then there is the question, as we move through the recession, of what I often liken to Ministers of scarp slopes and dip slopes. I do not know whether anybody did geography here. What happens is that the scarp is the place where unemployment rises very fast, as we saw a few weeks ago now. The recovery tends—

**The Chair:** We have lost our witness.

**Neil Couling:** —some 12 months after the financial crash. Indeed, the young person's guarantee came in from January 2010. So you try to time your interventions for when the labour market starts to recover, and you can start to place and support people who need help back into work.

**Viscount Chandos:** I am afraid that we lost you for a chunk of your answer. It seems to me—and it was acknowledged by the Chancellor, among others—that the tapering and ultimate ending of furlough is going to be the moment of truth. In a way, we ain't seen nothing yet. As you say, there has already been a massively diminished number of vacancies. The mind boggles a bit about what the work coaches can do in the period of maximum unemployment and minimum vacancies.

**Neil Couling:** I do not know which bits cut out, so if I am repeating and boring the pants off everybody, I apologise. There are always vacancies, although there is clearly a reduced number. We will try to help people and direct them towards those vacancies, as any public employment service would attempt to do. Clearly, as the recovery, I hope, gathers pace, we will then supplement that with various policy initiatives designed to support people who may be experiencing difficulties returning straight into employment.

We do not know exactly what the path will be for us going forward. We had to flip everybody out of job search support into processing benefits for a while, and we may need to do that again; and that is what people will do during that period. But right now, we are starting to contact people, give them some help, and point them to where there are vacancies in their locality, and try to help them and support them. The general feedback from claimants has been really appreciative of that; they are encouraged that there are opportunities for them. So we will do our best here, but let us not beat about the bush: this is going to be a difficult few months for the country, as the Chancellor has set out.

Q132 **Baroness Kingsmill:** On the system of conditionality and sanctions, I see that conditionality has been suspended during the course of the virus. Will we have to keep the two elements of that in suspension for some time? A vast number of new claimants are probably people who have

been in work for some time and are somewhat more sophisticated claimants, perhaps. So perhaps suspending conditionality is something that we are going to have to keep going for a lot longer.

We have heard quite a lot about hardship suffered by people who have suffered sanctions, sometimes for very minor issues, such as being late for appointments, and such things as that. Is it appropriate to sustain that regime at present, and beyond?

**Neil Couling:** We do not have that regime at the moment. Clearly, a work coach will not sanction somebody if there is no vacancy for that person to go to. One of my favourite stats from the NAO report a while ago is that, in 2015, 30,000 sanctions were applied for people who failed to turn up for an appointment in a six-month period in Jobcentre Plus, and 1 million people had failed to turn up for an appointment. So 30,000 out of 1 million were sanctioned. The sanction rate in universal credit is 2.3% or 2.4%, so not a high level of sanctioning was going on even prior to the crisis, and we are certainly not doing it now because it would clearly be absurd in the current circumstances.

Conditionality works. As an old friend of mine who is often on Twitter says, you cannot get a job unless you are looking for a job, and sometimes you need to nudge people into that activity. That is what work coaches will do, but sanctions will be the last resort. They will never go there first, or, if they do, they are getting it wrong, because we are trying to encourage people.

**Baroness Kingsmill:** There seems to be a large minority of people around the edges of the system who are suffering great hardship through the sanctions, through the fact that they are late because they have poor communication or mental health or transport issues. I know that conditionality has been abandoned during the crisis, but does it work, and do sanctions work?

**Neil Couling:** The evidence is that an active labour market, with conditionality as part of it, works in returning people to employment. The OECD says this. You just have to look at what other countries have done over the last 20 years to import conditionality into their systems, so we are not alone in doing that.

Clearly, though, we are human beings and we make mistakes, and there are cases that make me very uncomfortable as a leader inside DWP when I see them coming forward. We train and try to counsel people and help them—our work coaches—not to make those kinds of mistakes. But on whether it works, there is independent evidence that suggests that it does for the individuals involved and, indeed, the wider community who might be on benefits.

**Baroness Kingsmill:** It rather seems that, as my colleague said, in the next six to 12 months the only job vacancies that are going to be available are those for work coaches.

**Neil Couling:** I think you will see slightly more vacancies across the economy. The UK labour market is very dynamic.

**The Chair:** But you have shut down the labour market.

**Neil Couling:** No, even today, people are moving into work and out of work in large numbers. The flows of people doing that are carrying on. I am not saying that there are not big jumps, given that 8 million or so people have been furloughed—so obviously that is not the case. But when the furlough scheme ends, the employment market will clearly develop. Viscount Chandos was very pessimistic, and others might be slightly more pessimistic. I certainly hope that employers regard labour hoarding as a sensible response. They did in 2008-09, and that proved to be the right response.

I do not know what will happen, and we need to be ready as an organisation to deal with that. In the meantime, the labour market is not a static thing where there are just no vacancies and nobody is moving into jobs. Work coaches will try to help people in that environment. They will know in their locality where jobs are, and they will direct people towards them.

**Baroness Kingsmill:** No doubt the department is planning for all these things, including what may come down the track with Brexit as well.

**Neil Couling:** Indeed. We plan for lots of things. I would like to tell you that we planned for a pandemic causing a massive downturn in the economy, but that would not be the case. We had separate plans for that, but we put the two plans together. Lord Livingston and the Chair, Lord Forsyth, were very generous in their comments about how well we have done, and it is lovely to hear that. We will work on this problem. It is going to be a huge problem for the country, and we need to work together on providing some solutions to it for the people we all serve.

**Baroness Kingsmill:** I hope that you do not think that my challenges are anything other than challenges that you will need to be able to handle. I, too, agree with my colleagues that, up to now, the department has done quite a good job, or rather a good job, with the huge influx of new claimants. We have had good evidence on that point. However, it seems that the design of the system means that a lot of people around the edges fall by the wayside, and those are people who need to be taken care of.

**Neil Couling:** I agree entirely with you there and certainly do not object to any of your questions.

**Lord Livingston of Parkhead:** To carry on from what Baroness Kingsmill asked, you refer to there being a substantial amount of evidence on conditionality and sanctions and how they work. It would be excellent if the Committee had that evidence, because other witnesses have told us quite the contrary—that there is very little evidence that conditionality and sanctions work. Correct me if I am wrong, but I think

you promised the Work and Pensions Committee the evaluation that the DWP has done on this issue, which I do not think it has had. It would be great if you provided some more evidence to give a counterpoint to the points made by a number of other witnesses.

**Neil Couling:** I will certainly point the Committee to the research evidence that we have. We are a bit late on our promise to the Work and Pensions Committee, which we have every intention of fulfilling. I was talking to the Secretary of State about this in one of our briefing sessions before the hearing, and we hope to bring that forward soon. One or two events since we made that promise have got in the way of some of that, but we are keen to get that evidence out there, and I will send you a copy.

**The Chair:** How soon is soon? It would be quite useful to us, because we are about to start reaching our conclusions.

**Neil Couling:** I will send you the research reports that we have this week. I doubt that I can get the evaluation to you by the end of this week, but it will be coming as soon as we can.

**Lord Livingston of Parkhead:** On the level of sanctions, rather than the number of people sanctioned, which I know has reduced considerably, the point made to me and confirmed by a number of witnesses is that the deductions that end up hitting particularly the most vulnerable people are at a level that, if they were being deducted in a court, would be limited. Do we have to look again at the way in which the sanctions are applied and whether a more qualitative judgment has to be made? I accept that the numbers are substantially lower than they once were.

**Neil Couling:** Interestingly, the number of sanctions overturned on appeal is quite low. There is a real judgment call here.

**Lord Livingston of Parkhead:** What do you think the max deduction should be? Do you have a percentage in mind? Do you have in mind that anything more than 10% as a level of deduction would be unreasonable?

**Neil Couling:** You might be tempting me into things. I am looking at the empty witness box in Thérèse Coffey's office in the House of Commons for assistance. The amount sanctioned is only the personal allowance; it is never more than that. The housing and children elements, childcare and so on, are not subject to a sanction. There are hardship payments that people can get if they are sanctioned, and most people who are sanctioned go for a hardship payment. But I cannot really advise the Committee on what I, personally, think the levels of that should be, I am afraid.

Q133 **Lord Livingston of Parkhead:** If the Secretary of State comes back, we might ask her.

I have just one other question. In-work conditionality by 2021 has been proposed. Is that still the intent? Do you have any thoughts about what that might achieve?

**Neil Couling:** I think the Secretary of State has just launched a commission to advise on in-work conditionality. We have done two lots of research as a department, and we have published one of them. We may have published both—I cannot remember exactly—on our findings from the application of some conditionality.

I think that the research shows that supporting people in employment to have conversations with employers to increase hours looks to be a better intervention than the application of extra conditionality. There is a bit of a myth out there that, somehow, we are doing this now, and I use this platform to say that we are not applying in-work conditionality and were not doing so before Covid-19 hit.

**Lord Livingston of Parkhead:** I mentioned 2021, so I accept that absolutely. It will be great talking to employers as well.

Q134 **Lord Monks:** Sir Iain Duncan Smith, whom I have mentioned once already, envisaged at the start of the scheme a comprehensive system of support, particularly for the most vulnerable clients of universal credit. Where does your responsibility to help vulnerable clients start, and where does it finish? For example, we know that the Help to Claim contract does not provide for ongoing support. It is about what it says—it is about claiming. What is your comment on that?

**Neil Couling:** On the reason why Help to Claim is configured as it is, the Secretary of State set out the nature of what we were trying to explore and understand by flexibly running a pilot, which was extended for another year. We have discussed this at some length this afternoon; it was around the initial claim process and what help claimants needed to get safely on to universal credit. That has helped about 250,000 people in the first year successfully to get on to universal credit. Great credit is due to Citizens Advice and Citizens Advice Scotland for the work that they have done there.

We did not contract for ongoing levels of support. We have put responsibility for that aspect on to the work coaches, in terms of the ongoing relationship with claimants as their claim matures—and, one hopes, many of them move into work and beyond. That is the way we configured this.

I think that when Iain was in the department he had an idea that local authorities could do this, and we certainly tried for a few years with them. Some were very good—and I do not want to be down on local authorities—but some were not that good. We had a very patchy service, which is why we went for the national approach of Citizens Advice.

It is a mixed system of help from outside and work coaches looking out for vulnerabilities and supporting people. As I mentioned when I was answering the questions around domestic violence, we refer on to specialists when there is an issue that it is impossible to train a work coach to deal with.

That is the approach we have taken. As I said, I used to run the jobcentres, and what we do in jobcentres now is very different from those days when I was in charge, when it had just a work focus. We now provide a much more holistic service to claimants.

Q135 **Lord Monks:** My final question is about the digital first approach that the department has adopted. Is this not a significant barrier for some claimants, or clients? Do you know how many are not able to comply with that and need some other arrangement?

**Neil Couling:** I have been running universal credit for over five years, and one of the first things that I did was to drop the digital first idea. As a label, I did not like it because, as someone who has worked in and around the benefit system for over 30 years, I knew that there would be people who could not cope with it. I describe it as predominantly digital, which has helped us in the crisis an awful lot. There have been harrowing pictures of people queueing for benefits in other countries, which we have just not had here, thank goodness. But we know that we have to provide a service to people who cannot access us digitally.

About 98% of claims are done digitally, but about 25,000 claims are maintained on the telephone, and people need the ongoing support of different services that we provide. We know that around a quarter of people need help in making their claim or interacting with us, which is what Help to Claim is about. They get better over time, as they get more experience, as we all are in trying to work Zoom, for example. We try to make sure that up front there is help available to people.

If I could change history and time, one thing that I would change is that phrase "digital first" because it is slightly misleading. We are predominantly digital, but we have to provide a service to every citizen.

**The Chair:** You have frozen, Mr Couling. Oh, you are back.

**Neil Couling:** Thérèse is back.

**The Chair:** Did you want to finish that answer, or had you finished?

**Neil Couling:** I do not know at what point I cut out, Chair, so I apologise.

**The Chair:** At the most interesting point.

**Neil Couling:** There was one of those, was there?

**Thérèse Coffey MP:** Does that mean a civil servant giving an opinion?

**The Chair:** Actually, Mr Couling has been doing brilliantly in your absence. He passed on only one question, from Lord Livingston, who is going to ask you now.

Q136 **Lord Livingston of Parkhead:** Well done on getting there and back, Secretary of State. My question was on the level of sanctions, rather than the number of people who are sanctioned, which we understand has

reduced. The feedback we have heard is that the level of sanctions for some people can really throw them into poverty, whether or not that was justified.

I asked Mr Couling, and he expertly body-swerved it and said that it was one for the Secretary of State. Do you think that there is a maximum limit? Do you say that no more than X% or £X per week should be sanctioned from somebody, because it really takes away the safety net?

**Thérèse Coffey MP:** My understanding of the sanctions system and where we are now is that just over 2% of people currently have some kind of sanction. That is the data that I have from close to when I first arrived in the department.

**Lord Livingston of Parkhead:** It is a small percentage.

**Thérèse Coffey MP:** It is a very low percentage. I think that our work coaches and similar are quite targeted when they apply sanctions. There is this commitment that people make, and I think it is about reinforcing that commitment.

I know that my predecessor, Amber Rudd, looked at this area carefully and reduced the length of time that sanctions could be applied. At one point, it could be up to three years; now it is down to a maximum of six months, I think I am right in saying. I know that our work coaches take a formal but sensible approach in what they try to do when they apply any sanctions.

As I say, this has been looked at before in the department, and my predecessor made some changes. Right now, I do not have the bandwidth, if you like, to be able to look at it again in the detail in which it was considered previously.

**The Chair:** I am conscious of time. Lord Monks, did you want to finish, now that we have the Secretary of State?

**Lord Monks:** I have finished, Chairman.

**The Chair:** I promised that we would try to finish at 5 pm. Secretary of State, we are very conscious of how many of your predecessors there have been in a very short period, and I think that the whole Committee will be very impressed with your mastery of the detail of a complicated and difficult subject, as we have discovered in our inquiry. We hope that you will be there for some considerable time, because chopping and changing Secretaries of State cannot be helpful.

Mr Couling, we thank you, but I have just one quick question. When universal credit was started, everyone was in favour of it—they thought it was a great idea. Now it is a matter of some controversy. Why has this happened? Was it the Treasury?

**Neil Couling:** I do not know whether Lord Darling is still a member of your Committee. I used to be his Principal Private Secretary. He has told this story, so I think I can tell it, although he tells it slightly inaccurately.

He asked me back in 2000 whether he could simplify the benefit system, and I basically said that it was a very difficult thing to do and that you had to be in it for the long term and expect lots of brickbats along the way. He says that I told him it was impossible. I did not say that it was impossible; I said that you had to invest an awful lot of political capital into doing it. To the credit of Iain Duncan Smith and his six successors, they have continued with this. It was always going to be a long haul, and long hauls are often hard.

**The Chair:** On that note, we wish you well in dealing with the impossible, in what I suspect is going to be rather an intolerable period for our country in the months ahead. Thank you very much for taking the time to come and answer our questions. We are very grateful, particularly to you, Secretary of State. You must have been running back and forward and queueing endlessly, and at the same time considering our questions, so thank you very much.