

# Work and Pensions Committee

## Oral evidence: Universal Credit Update, HC 898

Wednesday, 8 February 2017

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Members present: Frank Field (Chair); Heidi Allen; Ms Karen Buck; James Cartlidge; Neil Coyle; Richard Graham; Luke Hall; Craig Mackinlay; Steve McCabe; Royston Smith

Questions 72 - 160

### Witnesses

[I:](#) Lord Freud, former Minister of State for Welfare Reform, Department for Work and Pensions



## Examination of witness

Witness: Lord Freud

Q72 **Chair:** You know the drill, don't you? Welcome back. Might you identify yourself for the record and then we will begin with Royston.

**Lord Freud:** I am Lord Freud and I am retired from being the Minister for Welfare Reform.

Q73 **Royston Smith:** Just to set the scene for the conversation and discussions; if you were starting again now how would you redesign Universal Credit and how long would you allow for it to be rolled out?

**Lord Freud:** I do not think I would redesign Universal Credit as a structure. The implementation was harder than I had expected and maybe that was my own naivety.

**Chair:** Why?

**Lord Freud:** What I did not know, and I do not think anyone knew, is how bad a mistake it had been for all of government to have sent out their IT so that the structure—it happened in the 1990s and early 2000s that you went to these big firms to build your IT. That was a most fundamental mistake right across Government and probably across Governments in the western world. Because particularly now you talk about IT as something separate but it is not, it is part of your operating system. It is a tool within a much bigger system. If you get rid of it and lose control of it you do not know how to build these systems. So we had an IT department but it was an IT commissioning department, it did not know how to do the IT.

What we discovered through the process is you had to bring the IT back on board and the department has been rebuilding itself in order to do that. That is a massive job, as you can imagine.

Q74 **Neil Coyle:** I presume that someone within the Department told you that they did not have the IT capacity inside to build the system you were suggesting as a Minister; did civil servants not make that case?

**Lord Freud:** No, the Civil Service thought it had the capacity because it could commission the big firms—the HPs, the IBMs—to do it so they did not see the problem. Government as a whole did not see the problem of doing it. It is only when you get into building something big you discover what a problem that was.

That is almost the most important lesson and it is no longer a lesson for DWP, which has learned it and is bringing it in on board, and I suspect is well ahead of other Departments in that process.

Q75 **Ms Buck:** We have already been through a series of massive government



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IT projects that have either failed or massively gone over budget. That seems slightly curious that people have not learnt from that experience.

**Lord Freud:** I agree with you. People have found it very hard to work out what was the problem. There are a lot of difficulties in building a big thing and I go through it like you need to have someone doing it who is accountable, and that is often something, because when you commission out you do not have that process. You need a lot of continuity and continuity is something in our governance processes which is hard to see now. Ministers turn over very regularly and, more importantly, civil servants tend to turn over rather regularly because of the pay restrictions. They only get more pay when they are promoted and so there is a two-year promotion round for good people.

Q76 **Chair:** But you did not turn over, you were there for the duration, weren't you?

**Lord Freud:** Yes.

**Neil Coyle:** Maybe the more senior civil servants.

Q77 **Chair:** Can I just go back, when you initiated the programme Universal Credit you just commissioned outsiders to build it for you. Then you brought the IT in-house and rebuilt the skills the Department once would have had so that you could do your own programme, whatever it is called.

**Lord Freud:** Yes. What happened was effectively we had a programme that had been built outside with a lot of companies helping us build it. Then we ran that programme on, that is the live system. Then we started building the full system in 2013, which is interactive. The difference between the two is that the live system has all the essential features of Universal Credit, in other words you get paid that amount at that time, but your interaction with the system after the initial application is through the telephone or through postal means.

The interactive system clearly has the features of Universal Credit but interaction with it is much faster because it is on the IT system. That is the difference.

Going back to the original question: how would I have done it in retrospect? The other thing I have discovered about big organisations, which I did not understand as well as perhaps I should have, was it is very difficult for them to deal with something that is purely conceptual. You need something on the ground. What you should do is get something on the ground quickly, small, it may be imperfect, but get it there. Then the organisation can start coalescing round it, understand it and start working it. Oddly, having a system that may not have been the all-singing, all-dancing one that is now going out, was essential for the organisation to understand what it had and how to adapt it because the IT is only a very small element of it. Most of the work is around your



operations and organisation of how you apply it. You have to have something on the ground to do that with and then you understand it.

The second thing that we introduced in that 2013 reset was the idea of test and learn, which is a phrase, but what it means is that you have something on, you understand it, you turn it round and test and test. Instead of going out with a big system at once you are going out testing all the elements because it is impossible to envisage how it will work, something as big as that in its entirety, unless you can do a process like that.

**Q78 Chair:** Did you think that the rollout of the scheme that brought simple cases on, like we have in Birkenhead, was that your pilot or would you have, looking back, done something smaller than that with just a few officers and built up from there?

**Lord Freud:** Essentially we did the live system and then we did that piloting in four areas in the north-west for about half a year. Then we started building out region by region until we had the live system for that group of people across the country.

Then the new system comes out, which is encompassing all the people who are more complicated, then that starts to roll out and that is in the middle of its rollout or at the beginning of its rollout now.

**Q79 Chair:** Is this a lesson we draw for Government here because Sharon White did the report—I don't quite know where she was then—on the Treasury with nobody ever experiencing a shock to the economy before, so there was no collective knowledge in the Department to respond in the Treasury to what to them were unique experiences. Are you saying that Departments themselves should now be seriously thinking about bringing in-house their IT work?

**Lord Freud:** Yes. It was a mistake putting IT out. You have to bring it back in. It is quite hard to bring it back in because the image of Government with the IT industry is not great. So you have to set up an atmosphere of getting good people in so this is an attractive place to work for them. You have to pay them appropriately. Our pay scales are not representative of what happens in some of these industries. There are about three areas of specialisation that Government finds it very hard to buy: various bits of IT, running contracts and project management, those are three scarce skills in our economy and in Government we need be able to pay for those specialisms if we are going to do big projects.

**Q80 Neil Coyle:** Lord Freud still seems to be suggesting that this was unknown at the point the Universal Credit was announced. It is my understanding that civil servants had been very clear that the Government's timetable was too ambitious. Look at the target that was set. When Universal Credit was announced 1.8 million people were supposed to be on it by 2014, less than a third of that number are on it today. Part of the challenge was the IT capacity, it just was not there. The system that could talk in the way it needed to from income to



landlords to Jobcentre, just was not there. Ministers were told this and were told their ambitions were too high. When the NAO looked at this they said, "The Universal Credit project had been beset by weak management, ineffective control and poor governance" and that was at ministerial level.

**Lord Freud:** Then that is an attack on me.

**Neil Coyle:** Almost. It is not just you.

**Lord Freud:** I was the Minister for Welfare Reform.

Q81 **Chair:** But were you overruled? Did you always get your way, David, on this? We are not trying to trip anybody up, we are trying to learn the lessons. You are exceptional being brought in, in that you looked at this as Minister for Welfare Reform for the Labour Government, or adviser for the Labour Government. You are then given ownership but Secretaries of State do not like to necessarily delegate what becomes the most important reform in the Department. So there is a tension between you with your expertise and a Secretary of State who has 10 big projects to look after. How did that work out? That is what I see behind Neil's question.

**Lord Freud:** I had extraordinarily good relationships with my Secretaries of State. Certainly on the design of it I was very comfortable with the series of recommendations going through. There were some that were changed by Iain, who was then a Secretary of State, but not very many. That was absolutely not a problem.

There is an odd structure, which I do not quite believe in anymore, which is the relationship between the politician and the Minister and the Civil Service, and the concept is the politicians decide what their objectives are and the Civil Service delivers it. I do not believe that you can divide policy and implementation in that way. That is a very big issue because our whole Government is built up with that concept and it has been for more than 100 years.

Q82 **Richard Graham:** Can I just interrupt? On that question of the politicians deciding strategy and the civil servants implementing it, where does project management fit? Is it right in between the two or overlapping?

**Lord Freud:** In theory, the Civil Service produces the project management but it is a very odd circumstance. It did not quite happen with Universal Credit because we had this enormous—back to Neil's point about the senior Civil Service—in my first five years I had no fewer than six senior responsible officers and six project managers. You can imagine what that was like in terms of something as complicated as Universal Credit when the senior people just have not had the time to understand what it is they are dealing with and what that implied for the Minister—for me—in terms of trying to hold a process together. Some of that was just



pure bad luck. Philip Langsdale died. Things like that happening was bad luck. That is what was happening through that process.

**Q83 Richard Graham:** What happens in that situation—because I have been through that as trade envoy to a country where we have had four different directors of trade—is that you become continuity, you are the person who knows the narrative from the beginning forward and civil servants are inevitably deferring to you on operational issues.

**Lord Freud:** You have a lot to do when you are a Minister. That is one of the problems. You do not have time to do the project management on a big project because you are up in front of Parliament answering questions on different things the whole time. What, as effectively executive chairman of that process, is to make sure the Department was worrying about all the issues that would come up and bite you in two or three years and that you just had not waited until you were there but you had some process working.

What I was doing was sending teams out to make sure that we were on top of particular things, which were then reincorporated into the whole process. But it was a very difficult time, as you could probably see from the outside, as we built the Department into a capability to do this, which I now think they are very capable. It is one of the reasons I thought it was fine to retire now because there was a very capable team doing it.

**Q84 Chair:** But you have turned our constitutional theory as to the Minister and civil servants on its head, haven't you?

**Lord Freud:** Yes. That is quite interesting and quite worrying.

**Q85 Chair:** Only if you think we should bow down and worship the theory. It just seems to me very important the lesson you are spelling out for us that these big projects both need stability of Ministers but also need stability of the Civil Service with the right skills. This project only had one of those characters, didn't it, which was you? As Richard said, you then had to take over the functions of what you would normally expect civil servants to do at least at some stage of this. At the same time, you had to keep going off to the House of Lords to answer all the questions and all the debates and take all the flak that was mounted against the Government on its welfare reform programme.

**Neil Coyle:** It also makes it even more incredibly high risk because if it had not been Mr Langsdale who passed away, if it had unfortunately been the Minister, then where would this project have gone?

**James Cartlidge:** On this point about in-house—sorry to go back slightly but this is germane. For a lot of people, if they were hearing this, they think, "Oh, so from now on the Department has to employ all these very expensive IT people so they can do these projects". It is not trying to be trite but the Department of Transport is not going to permanently employ lots of people who can drive huge boring machines to build Crossrail. Admittedly it may be one-off, who knows. It just seems unrealistic to me



to expect that lesson that somehow Departments would take lots of this stuff in-house. It does not seem to me to gel with how even most companies do it. That is a concern to me that we can potentially be endorsing something that is not realistic.

**Chair:** David, before you answer that, the difference between you and a private company was when Sainsbury's crashed over the links between their stores and the warehouse there was no continual fuss in the paper. The shareholders did not kick up a fuss. They just wrote off £1 billion, whatever the sum was, and then got on and started again. This is turning out to be a totally different session to what we have ever had before because of learning from you, David, but it just seems to me that private companies can draw a curtain over things in a way that, thank God, you cannot do in the public sector.

**Neil Coyle:** People are inspecting taxpayers' money, and they have the comfort of choosing a product whereas with the benefit system you do not have that choice.

**Chair:** I am trying to understand better this whole process of welfare reform.

**Lord Freud:** I have two, I will try to deal with them. IT is a difference in kind than your TBM team, who go round the world. You get the best TBM team. I did Eurotunnel so I am quite familiar with that. Because the distinction I am drawing is it is wrong to think of IT as something separate. It is part of your operation. If you lose control of how you do your operation you have lost what is the essence of what you are trying to do. That is the difference between getting in a team and needing this capability in-house. The second question that you were raising; remind me again.

Q86 **Chair:** I was just discussing with James his question in that what happened with Universal Credit, I am not trying to excuse him or anything, but—

**Lord Freud:** Private versus public. This is interesting and again the difference is if you are in the private sector you put a quite aggressive timetable to your team, you want to get the pressure on and you want to get it done. If it slips it slips and you expect that. It is internal. It is very hard to have that pressure in the public sector because if you put a tight timetable on, which we did, and you start to slip, the newspaper stories and the criticism particularly in the Chamber of the House of Commons—it is slightly more polite in the Lords—is chaos. But all you have done is set a tight timetable and you have slipped it a bit. So there is a real problem about project management when every little change is used politically.

Q87 **Chair:** So you are turning something on its head again, your slippage was a success, you are saying, aren't you, because there were people involved, it wasn't like moving vegetables that Sainsbury's were doing from their warehouses and therefore it is proper that you let the thing



slip rather than mess up people's existence.

**Lord Freud:** Well, one of the things that we decided—and that is what the test and learn is—it is more important to get it right and working before you go to major scale, and I am sure you will be asking me some questions on things, than stick to a rigid timetable that you made up at the beginning with your best intentions but you got it wrong.

That has been the oddest thing about the political process is this obsession with trying to find something to do the attacks and the timetable has been the thing. If you were to take away the timetable from Universal Credit—just say let's ignore the timetable—the attacks on it evaporate, bluntly, and that is a very interesting difference between the public sector and the private sector.

**Chair:** So that is another lesson, isn't it?

Q88 **Ms Buck:** To be fair, and having been on the Welfare Reform Bill when we were discussing this in detail in 2011, isn't it true that you and other Ministers set up that expectation by talking down the failures of the system previously of tax credits and talking up your ability to deliver an extraordinary transformation of social security without problems? So we were discussing all of these issues in considerable detail five, six years ago and being assured that we were completely wrong. Is that not part of the context where you were then describing this as a tax?

**Lord Freud:** Yes, it is absolutely fine for anyone to say, "Look, the original timetable you weren't able to stick to, fine". You know, we haven't. But remove that criticism—if I do not allow you to make that criticism—now come up with some real points, because it is a very artificial and political debate about, okay, you didn't stick to a timetable that you set at the beginning. So the private sector simply does not have to worry about that issue at all and that is a big, big difference.

Q89 **Neil Coyle:** If you were in the private sector and you said, "I am going to do this project, which costs this much", everyone says, "Fine, do that project at that cost" and you come back two years later and say, "I have spent more than that and I cannot deliver it for another decade", you would probably get the sack.

**Lord Freud:** Well, in this case we would come back and say, "Look, we have had to slow it down but—"

**Neil Coyle:** Also it is costing more.

**Lord Freud:** No, originally we thought it would cost £2.4 billion and now it is £1.7 billion.

Q90 **Neil Coyle:** The initial start up was to begin the process of the shift to Universal Credit.

**Lord Freud:** No, that is the whole cost. The whole cost of introducing it was originally set at £2.4 billion, the current cost is £1.7 billion.





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Q91 **Chair:** When you say introducing it, David, it is not introduced yet, is it, so how do we know what the cost is?

**Lord Freud:** Sorry, that is the current projection of the full cost.

Q92 **Chair:** I see, what you mean is when everybody is on it that should be on the scheme?

**Lord Freud:** Yes. Yes.

Q93 **Richard Graham:** I think these are interesting debating points. Whether a major project comes in slightly late seems to be less important than whether it succeeds, but the big question there is going back to the time when you were advising the previous Labour Government, at that time or rather just afterwards, Alistair Darling said in the House of Commons, "We looked very closely at what is now known as Universal Credit and we decided it was too difficult". Was he right?

**Lord Freud:** My own take on this—funnily enough my first meeting with Frank Field, your Chairman, was in 1979 when I was a journalist. That is when it all went wrong—[*Laughter.*] I had to write a feature for *The Financial Times* on welfare and poverty. What was very obvious—and my interest was sparked at that point—were the two traps that we have, which are the poverty trap and the welfare trap. When I was asked to do my report in 2006 on what to do about welfare and welfare to work I was amazed at how we still had the poverty trap and the welfare trap created by the benefit system, which was by then completely impenetrable. It had been bad enough in 1979. One of the things I suggested was we should have a commission to sort out a new benefit system. The last Government took all of my other recommendations but they did not have a commission on how to reform the benefit system. The benefit system, as you all know, has been built up by accretion and is impossible to understand. There is nobody who understands it. Maybe Frank understands it. It just has to be simplified.

You cannot do anything if you have the incentives wrong. I will tell you why this is so important. If you have a system where people can basically shelter themselves from the jobs market and you get the balance wrong on that—between the incentives to work and the safety net—it is invidious for society as a whole, for our culture as a whole, because what you are doing is you are creating an over-comfortable safety net that is impossible to break out of and you are also making the people who are working look down and think, "Hang on, why am I bothering". So it is a terrible process. My own view was then that we had got into an invidious position and you had to break out of it. That was why Universal Credit was and is so important.

It has huge social implications to get that balance right and once you have the machinery in, which is what Universal Credit is—in terms of what I was trying to do—to work you can play with the parameters and move it, you can optimise it. If you do not have that system with nice, simple, clean levers you will never get that social aspect right. I think it



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will take many, many years, I think it will take some decades to optimise what we are now building.

Q94 **Chair:** Is your answer to Richard yes or no?

**Richard Graham:** My interpretation of your answer, David, is the comment that it was too difficult to do was not in line with your ambition that this needed to be tackled.

**Lord Freud:** I think at the time when I started and I know about, the Labour Government then didn't have the time horizon to do anything as ambitious as this. So I think you can say, yes, they looked at it and they couldn't do it. They certainly could not do it in the period that they were expecting to be able to go on. I think that is the real answer, to be not overly political about it. The time to have done it was right at the beginning and, again, your Chairman—

**Richard Graham:** Thinking the unthinkable.

**Lord Freud:** —had a go. If it didn't happen then it wasn't going to happen. So it is once in a generation you have a chance to do something like this and if you do, you have to try to do it because I think we have an impossible legacy system.

**Chair:** Royston, might I bring Luke in here because when you were saying this was designed to eliminate the unemployment and poverty trap—Luke, might you come in.

Q95 **Luke Hall:** The Resolution Foundation have told the Committee that Universal Credit is now creating more losers than gainers. I wonder, was this always the intention of the policy or is this because compromises were made along the way to turn this policy into a workable solution?

**Lord Freud:** It is, of course, nothing to do with Universal Credit per se. There were certain political decisions to reduce some of the welfare payments and it was done over a timescale at the same time that tax thresholds were raised and the living wage was being brought up. So there was a deliberate government policy to change that balance. It is completely on the record that the work allowances were reduced as part of that process and that will come in. I know that the Resolution Foundation feel pretty passionately they want the work allowances back but if you just look at the Universal Credit as a structure, that has nothing to do with the levers. You can take a political decision about how much you want to pay people, getting an efficient structure to do it through is what Universal Credit is about.

Q96 **Luke Hall:** Was there a change in the levels of enthusiasm from the Treasury once Universal Credit became less generous for claimants?

**Chair:** They made it less generous, didn't they, David?

**Lord Freud:** That was what the work allowances reduction was about. Originally it was going to be done with the tax credit system as well but the timings were changed and Universal Credit was used to introduce that



change. The relationships between Departments is complicated and fluid so there were times when one's view about the Treasury was totally unprintable and there were other times when they were very supportive.

Just by way of expressing some gratitude to the Treasury unusually, in 2013 the Treasury effectively saved Universal Credit. I don't think without Danny Alexander as the Chief Secretary we would have got through that process. He was enormously—and the Treasury team around him—supportive at that stage. So I think it is too simplistic just to take one view on it. The Treasury is a big complex place, different people, different views and one worked one's way through those groups.

**Q97 Chair:** Can I draw a comparison with my own experience, David, and that was one obviously expected the most powerful player would be the Chancellor in this because he controls the money. I found when I was part of the Government that the Prime Minister never really understood what was going on and therefore he could never stand up to the Chancellor because the Chancellor was very good at arguing on these things. Might the same criticism be held here that although your Prime Minister gave commitments publicly to the scheme, when push came to shove, he couldn't beat George Osborne in argument to defend the scheme because he simply never really understood it? I found the same with Blair and Brown.

**Lord Freud:** I don't have enough knowledge about what was happening at that level between the Prime Minister and the Chancellor to say anything about that. But what was happening was that because of the financial position that the country found itself in, the Chancellor was needing to reduce public expenditure. So there was, at the same time as Universal Credit was coming in, a drive from the Chancellor to try to reduce public spending and public spending on welfare. So those two things were happening at the same time. Now, they were sometimes in conflict, they were sometimes working together and you would have to go through each element of that. But those were the two things that were happening at the same time.

Universal Credit is a much more efficient system and saves you money year after year. I think the original sum was that once fully in you saved every year £7 billion and that is the total saving which reflected a more efficient payment system and the benefits to the economy as a whole. So just having an efficient system is valuable to the economy and therefore to the Treasury.

**Q98 Neil Coyle:** Just focusing slightly on that, because there were always going to be groups who lost out while there was the intention that Universal Credit would be more generous to some people. Three of the key groups, I think that were always intended to lose out was single working disabled people, disabled children of working families and carers of disabled people. There were always going to be people who lost out as a direct result of some benefits just simply disappearing under the Universal Credit system. Is that not the case?



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**Lord Freud:** It is a different system and it is very complicated working out winners and losers. Sometimes it is not necessarily a bad thing that there are some losers. There are some people who are gainers in the present system, which one feels should not be. You can be paid benefits now up to £50,000 of earnings. A few years ago you could be paid your tax credits up to £75,000 of earnings. So redressing the balance so that money flows through to the people who really need it, the poorest people, is really valuable. Some of the changes between winners and losers do reflect a more efficient system going to the people who really need the money.

The other thing about the system is because of its structure a lot of money goes to people who do not make claims they should be making under the legacy system. Originally there was about £2 billion more going to people who should have been claiming the money but because it was too complicated didn't. Again, those are to the poorest people.

So it is a very efficient system to the poorest people in structural terms. We then made a number of simplifying things and we simplified some of the—we had three rates of disability, we moved those down to two and changed them and simplified them, having raised the overall. But some of the people may see a reduction in one or two of their elements but then they may overall see an increase in other elements. So their overall position is slightly difficult to tell.

I should finally finish up by—this is the bane of all of our lives—it is all done with static analysis. Static analysis is fine except that people change behaviour reflecting what the incentives of a new benefit system are. What you actually have to worry about is the dynamic analysis of what are people doing as a result of your changed systems. That is something that is very hard to introduce in public debate and, indeed, when you are working with the Treasury where everything is done through static analysis.

One of the things that we have introduced is we now can pilot things. Some of you will have seen I have put a clause in the Bill that says you can trial all the different economic parameters, and the importance of that is that you can then start to take a group of people, maybe a thousand, trial them on a different taper, a different work allowance, a second work allowance, anything you want to trial you can trial it and you can monitor it, because you have the RTI system, you can see the change in behaviours. You can start moving to a position where you really understand what the Delaney effect of making a change—that is, if you make a change how does that move behaviour around and where does that leave you overall in your costs and your benefits for an economy.

Now, until you can do that, we are all flying blind on the effects. Once you have Universal Credit in with decent volumes you can start trialling all of these parameters and that is one of things that this Committee in



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particular should be enormously interested in, because then you can start to optimise the overall system based on real information about how people behave when you change key parameters.

Q99 **Chair:** David, the question is not of you giving the Government the power or gaining the power for the Government to monitor changes in this way for future reform, but did you set in hand a longitudinal study on all claimants so that we can see the totality of the reform and its impact on people?

**Lord Freud:** Yes, there is an enormous research programme, part of that is longitudinal, I think. There are various elements but, as you know, they put out reports every half year or so monitoring what is happening and then reporting on it. So research is built in to the introduction of Universal Credit.

Q100 **Neil Coyle:** That point about static analysis is fascinating because one of the challenges for delivering Universal Credit has been the more complex cases, has been the IT systems, you have talked about it and how that reflects the more complex cases and how it is built around it. But is it simply the IT that has been the barrier to the delays and roll-out of Universal Credit, or are there other structural problems?

**Lord Freud:** The timetable now is about the operational capacity of the system to introduce something that works and does not harm people. We get that right. The IT is an element of that but building out the operations of DWP, of Jobcentre Plus, is more important and should control the timetable more because you just need to get it right.

Q101 **Chair:** Damian Green has almost slowed the roll-out to a pace that a snail would beat, hasn't he?

**Lord Freud:** The timetable now, if I remember it, is to do the full roll-out across the country by September 2018 so that is 18 months.

Q102 **Chair:** There is no way that is going to be met, is there? In a sense one of your lessons to Damian Green was for heaven's sake don't set a timetable, wasn't it?

**Lord Freud:** Well, you have to set a timetable. So the current timetable is to roll it out through all the Jobcentres for flow by that date, that implies a big pick up in volume this summer and I know the Department want to feel comfortable that everything is working well before it presses that accelerator. Run that through to September and then there is a gap deliberately put in by the current Secretary of State between September 2018 to July 2019 and at that stage you start to transfer the managed migration across of the remaining people who are on legacy systems.

Q103 **Chair:** Neil, before you develop the argument, may I pick you up on that David? We have had evidence here, and I certainly have it in my constituency and I am sure other people do as well, that people are waiting for an extraordinarily long time to get their first payments.



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Secondly, bad things are going afoot with housing benefit payments. Now, it seems to me that if you have no money, you have lost your job, you do not have money for six weeks and that is the supposed maximum time but I have constituents waiting two or three months. It is not uncommon. We had evidence about housing benefits, of claims being in debt very quickly.

**Lord Freud:** The housing issues are something that the Department has spent, in the last nine months or so—and I know because it was with my deep involvement—a lot of time to get on top of. There are a lot of figures going around that are—

**Chair:** Alarming.

**Lord Freud:** Well, they are alarming but they do not necessarily tell you what is really happening. So I spent a lot of time, for instance, with the ALMOs and I think some of them came in to see you?

**Chair:** Yes.

**Lord Freud:** So they have figures that show people in arrears are running at 86% who are on UC. 79% of that 86%—both of them being in fact percentage points—were already in arrears going in. So what we are looking at is a population that is moving back and forth from work who find it currently very difficult to move from having a payment from the council to doing their own payments, and the ALMOs also have a system of rent in advance, whereas of course all benefits, housing benefit and everything else, are paid in arrears. So what we are trying to disentangle from all of that is how much of these are book arrears and how much of them are real arrears that we should be—

Q104 **Neil Coyle:** I think that slightly misrepresents what housing associations and ALMOs told us, because what they were saying—even if you allowed for some arrears in the past—was of the very few people they had on Universal Credit of all of their tenants and residents, there was a much higher proportion of the people on Universal Credit, 100% in some cases, who were in arrears.

**Lord Freud:** Yes, but, sorry, what they say as well is 86% of people on UC are in arrears but 79% were already in arrears.

Q105 **Ms Buck:** But they also say that of the Universal Credit people who are in arrears, the amount of arrears is wholly disproportionate on the numbers, so—

**Lord Freud:** Let me go on to the story because I want to just first of all say watch these figures carefully because I have spent an awful long time with the ALMOs with this issue and the figures are, at the moment, not particularly comprehensible. That is just an example.

Q106 **Neil Coyle:** You sound like you are saying that Universal Credit's benefit is that it is very simple and that when we get into any individual concern or query it is too complex to understand? It is too complex for Universal



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Credit to work effectively.

**Lord Freud:** No, no, let me finish my point. The figures that you saw, that 86% is not what it appears, as I say is because you already have 79% anyway. However, when I left in December I was looking at figures that show that there was a problem and there was a proportion of people, probably around a quarter, where UC was having an effect on the arrears. The Department is obviously really concerned to sort that.

The issue is around how long does it take to work out what the right rent is to make those payments? There is an element about getting the right data and the speed of processing. They need to and are working on speeding up and then accuracy of data—one of the things that has happened in the social housing sector is people find it quite difficult to know what their rent is because of the way that it is worked so getting accurate information about the rent is something that you need to liaise three ways between the Department, the tenant and the landlord.

Now, that process needs to be improved and I know they are working on that improvement. They are looking at a portal—

Q107 **Neil Coyle:** For October 2018, yes. So you would support bringing that forward, would you?

**Lord Freud:** Yes, I would imagine that the Department is working hard to get something pretty fast on that.

Q108 **Ms Buck:** Why is that factor any different from the system we have always had before? It has always been the case that tenant, the housing provider and the housing benefit manager, local authorities, would have to work those three things together. There is absolutely no—

**Lord Freud:** That is a very good point. What has happened is, with UC, it becomes transparent. In the old system—

**Ms Buck:** Sorry, why?

**Lord Freud:** Because the tenant sees the money going out through their account. In the old legacy world, with the housing benefit, it often went straight from one Department of—

Q109 **Ms Buck:** No, in the case of housing, they would have an account. Everybody has an account.

**Lord Freud:** Yes, yes, but the money goes direct from the council, often to the other department if it is an ALMO, or to the housing provider, so there is a—and that is—

Q110 **Ms Buck:** I am sorry, that is just not—if they are in work, that is simply not the case. They would always have to manage that process, it is exactly the same.

**Lord Freud:** Yes, but not through the tenant.



Q111 **Ms Buck:** Of course they would. If you are a working person.

**Lord Freud:** If you are a working person, yes. But if you are not a working person, and you had a direct payment—

**Ms Buck:** You would still have an account, and you would—

**Lord Freud:** Yes, you would still have an account.

**Ms Buck:** —still have managed service charges, and you would still have to see how the payments were operating across the account.

**Lord Freud:** Yes, but, you know, what we have discovered, or what the Department has discovered, is that the level of accuracy that people knowing exactly what is their payment, and how much is allowable, you know, expenses and other costs, it is actually quite hard for people.

Now the live system, which is trialling all this, has gone to straight information from the landlord. I suspect that there will be an acceleration of that with the full system.

Q112 **Chair:** You mean a key element of Universal Credit would be reformed, and that is that people would be able to opt right away for the Department to pay the landlord?

**Lord Freud:** No. I did not say that. No, no, no. I said it is the information about what they are paying, and the double-checking of that, so there is an accurate set of information about that much more rapidly.

Q113 **Chair:** But don't you think that is a necessary reform, David? This ambition that with tenants, all of them will be able to manage their accounts? Even when, at this level, you are saying those real doubts about what the rents are, and what should be paid, and all the rest of it. Now if we have trouble with it, just imagine what it is for people with maybe a less financial skillset than us in understanding what they are trying to do with that.

**Lord Freud:** Well, this is at the heart of Universal Credit, which is if you create a silo of people who do not work, and are essentially not expected to work and, if they do, they are going to start having mechanical problems about suddenly taking on their rent and it is a problem, you start to lock them in. It is not the same as a financial benefit trap, but it is a structural benefit trap.

**Chair:** But you are not leaving them there, because you are actually encouraging them to work, they are coming in for interviews. They have to find jobs.

**Lord Freud:** Yes, yes. Once they work, then they will have to pay their own rent.





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**Chair:** Yes, but it is not as though we are leaving them in a silo because, rightly so, we have made benefit conditional now about seeking work, in a very meaningful way. So they are not all just left there.

Q114 **James Cartlidge:** Can I clarify, are you basically saying, Lord Freud, that there is a passivity at the moment for those people that you want to overcome, so that when they take on more responsibility vis à vis themselves, they will be more ready for it? Is that essentially—

**Lord Freud:** Yes. Having two systems, a tax credit system for people who are in work and need a bit of an income supplement, and another system for people who are out of work—which is kind of over-supportive, if you like, in the sense that they are not expected to do anything—is basically trapping them in there. Whereas the concept of Universal Credit is that there should just be a flow between the two systems and there should not be a distinction.

Now, let me come on to the point that you are going to make to me, is there are some people who are very vulnerable, who cannot handle this and I agree with that. That is something, funnily enough, that came out of the dialogue in the Lords as we did this Bill, and Karen was talking about that process. From that, what we did is look at something that we call Universal Support, which is a partnership between the Department and the local authorities. We have now got an agreed partnership agreement signed with every single local authority to help with the barriers that some people will find. Currently we are only dealing with two or three barriers: digital, competence and budgeting support. But there is no reason why that system should not expand to handle other barriers.

What I think the system has done in this country in the past is I think people have just been put in a nook and cranny where they do not trouble anyone. No one has tried to say, “Hang on, you have these problems, we need to help you through them”, when they cannot budget, they cannot handle some of the basics of running your life. I think we need to get into partnership with local authorities, housing associations, DWP, other groups, Citizens’ Advice, to make sure that people’s problems and barriers are handled coherently. That is what the Universal Support structure can do. I know the Department is looking at how that structure can work. We are now, more or less, in cyclical full employment. We are now looking at people who have real barriers to work, where you need to get a system of helping them and supporting them, and tackling those barriers on a coherent basis, to get those people into the workplace.

Q115 **Ms Buck:** As we have moved on to housing, shall we just finish it off? So just going back to the fact, obviously that is absolutely right, we need to get everybody together to try to work this out. But when we have had the ALMOs, when we have had the housing associations, Croydon Council, in front of us, they are very clear in their analysis that the Universal Credit claimant component of their case load accounts for—around one in 10 of their caseload is Universal Credits in Croydon’s case, 37% of their arrears. So it does not seem to be the case that this is



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simply a read-across of people who were previously in arrears. All of these things were flagged up with the Department beforehand.

**Lord Freud:** Well, as I say, be very careful in those statistics, because—

Q116 **Ms Buck:** So you are just saying that they are wrong or that the people who gave us them are wrong?

**Lord Freud:** No, no, no, what I am saying is that some of these statistics are not quite showing you what you think they are, because—

Q117 **Ms Buck:** So they are imagining their arrears?

**Lord Freud:** No, what we have is a group that because they are going on to Universal Credit, they are in transit, they are changing. So you are getting a particular group who are changing their arrangements because they are going on to the benefit system, it might be UC, and they would anyway be in arrears. We have figures that show that if you compare with someone moving on to JSA, I think the figure is that in the first period a UC person is 48% likely to be in arrears against JSA 31%. Move it to the three-month point, and they are again equivalent.

So there is an arrears issue, I am not going to deny that, and there are things that need to be done to sort it, but it is not the dramatic story that you are hearing from people. I have spent a lot of time talking to these different groups, trying to understand these figures. Now, as I say, I have tried to describe some of the things that the Department needs to do, and is working to do, to get on top of this, but I really caution you from taking some of these figures at face value.

Q118 **Ms Buck:** Okay. So do you think, then, to follow that through, it is possible—and should the Department be doing this, or are they doing this—that you can track the first cohort through the system and we should then be able to find out in six months' or nine months' time that that cohort are no longer in arrears?

**Lord Freud:** Yes, they have done that, and that is what it shows. It shows that—

**Nigel Coyle:** It is not what it showed in Croydon. That is not what they told this Committee.

**Ms Buck:** So where is that Department—

**Chair:** Maybe we should just ask for this data.

**Ms Buck:** Yes. The Department can provide us that information?

**Lord Freud:** If you ask them to show the UC/JSA comparison from the first period to the three-month, I think you will be quite interested in those figures.

Q119 **Chair:** You see, what we have though, David—and then Richard wants to come in—from my own constituency, housing associations who took over



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council stock, took on debts. They borrowed against it to actually do up the properties and are now wondering about their financial viability because of arrears. Also, for us as MPs, we all know we do not get people marching in, saying “Thanks, it is really going well. I love Universal Credit.” We get the ones that are the problems. But I do see people who have always been managers, being reduced to tears in trying to understand what is happening to them under Universal Credit. So it is not people who we might think need actually more budgeting skills—I am sure all of us could do with more budgeting skills, and particularly if you are on low income, because it is more difficult to budget. They are people who have never been in this situation of turmoil before, who found the Universal Credit is really wrecking their lives. Which is not the aim of the reform.

**Lord Freud:** No. I accept that there are a proportion of people who have been affected. It is not all of them but there is a proportion. There is an element there of how many of them are because—even the six weeks, which some might argue is too long for the first payment, if it starts to stretch beyond that, that is a problem. The proportion that that is happening, that needs to be pulled right back. The Department needs to get first payments on time for a very high proportion of that. They need to work on doing that.

Q120 **Heidi Allen:** Can I ask just what the operational reasons are why that does not happen? What is it that slows payments down?

**Lord Freud:** Well, I think that there is whole mix of reasons. Some of it is, you know, how many people do you need? You need to get all of these processes on board. One of the issues at the end is—and I know they are looking at this particular one—if you find out that there is a difference between what the landlord thinks the rent is and what the tenant thinks the rent is, there is a whole process of consent around doing that check across, which takes quite a lot of time. One needs to look at how to speed that up and what that consent process is.

Q121 **Chair:** Is that data protection or just human frailty?

**Lord Freud:** I think that one is a data protection concern and in practice you could look at ways of speeding that up with the data protection.

Q122 **Heidi Allen:** Was it one of the housing providers that said to us that they would benefit from direct access—

**Neil Coyle:** Which is the landlord portal, yes.

**Lord Freud:** Yes. So there is a lot of work in that. A lot of this is just—and this is why “test and learn” is so important—to get these processes to work. The theory can be great, but the processes have to work on time, particularly when there is a gap.

Q123 **Neil Coyle:** You hinted though, also, that there was a people need. Somebody has to enter these numbers at some point and someone has



to understand the system and make sure that they talk to the landlord and get that consent. So if the Chancellor provided more money for Universal Credit in the budget, is one of the things to help Universal Credit work more effectively more people to help deliver it?

**Lord Freud:** I think the people are all right. The numbers. There is the exact timing of your numbers and your volumes, balancing that up and understanding that. The real time consumption of Universal Credit, clearly, is getting someone on the system. Once they are on the system it is relatively cheap to maintain. Getting that balance of volumes and service levels is kind of an operational issue.

Q124 **Neil Coyle:** Cheap to sustain if things do not change, but what we have heard, particularly in my constituency, where people's income vary week on week that can cause problems because the IT system then says, actually, they should not be getting a payment, or it needs to give an average payment, and then the landlord does not get a payment. The complexity of real life undermines that simplicity.

**Lord Freud:** Well, one of the things about Universal Credit is it is actually better on variable—

Q125 **Neil Coyle:** Not for the people who want their rents paid on time and the landlords who are owed rent in arrears.

**Lord Freud:** Now you are talking about people who are in work and getting paid. This is where the inflexibility of the tax credit system is trumped by Universal Credit.

**Neil Coyle:** No, I am talking about specific problems with Universal Credit, that it would be nice if you could address.

**Lord Freud:** Well, which problems?

**Ms Buck:** Well, the rent problem.

**Neil Coyle:** That someone whose income fluctuates, sorry if I went too fast. If someone's income fluctuates, and that then means that the Universal Credit system is too rigid and suggests that they should have a certain income every week, even though it dips below that—so they end up not getting some rent paid, which means they end up in arrears, which means they end up with an eviction notice.

**Lord Freud:** That is not what happens, because what happens is that the RTI adds up each of the weekly payments for the month, knows what you have been paid that month, and makes the appropriate Universal Credit payment that month. It's very immediate. If you have a bad month, you will be paid more Universal Credit and vice versa. The amount of money in your bank account should be very consistent. That is one of the attractive features of Universal Credit. It is very flexible.

Q126 **Chair:** That depends on the real-time initiative, doesn't it? Did you, running the Department, find there were difficulties in the accuracy of



that data being provided to you?

**Lord Freud:** We call that LMI, late, missing and incorrect. We had clearly been working on that, or the HMRC have been working on getting that figure down. Now I would guess the underlying rate there is below 5%, but clearly that, when you talk about a massive system with 7 or 8 million people, is a lot of cost to DWP. One of the things that I have been doing over the last however many years is talking to the banking system about the payment system. The banking industry has, as a result, put out a couple of years ago a commitment to go to a world-class payment system, and there is now a process with the regulator to build that. One of the elements of a world-class payment system is to have what's called enhanced data with every payment.

Every payment that goes through the banking system, the banks, or whichever system is going to be used, carries with it the information around that payment. That is, of course, transformative for our economy, but it is also transformative for our late, missing and incorrect issue, because by definition every payment that goes through the system—and 95% of all payments go through the system—will be accurate, and we will have full information about what that payment really is in terms of making a payment. The LMI issue will, in the fullness of time, be very substantially reduced.

Q127 **Chair:** Why, David? Mrs T used to say, "Put rubbish into a computer, get rubbish out". If the data on wages is wrong, no brilliant banking system is going to pick that up, are they?

**Lord Freud:** Yes, because what the banking system will tell you is, "This amount of money hit Frank Field's account on Monday". We know that, and then we will know that was a payment for his earnings, it had so much pension payment incorporated, maybe so much benefit in kind incorporated, whatever. We will know that payment and, therefore, can make absolutely the right Universal Credit payment.

Q128 **Chair:** That is different from Neil's point, which is talking about the rent payments. The calculations are wrong.

**Lord Freud:** Yes, the calculations are wrong, we are now back to the landlord portal issue.

Q129 **Neil Coyle:** That would be a big help. I also came in on Heidi's point, which is about how to cut that initial waiting time. The Department suggests it should be six weeks. My own council, the full service there is nine weeks, I think, and Croydon suggested it was taking 10 weeks. Not just 10 weeks when this first started, but 10 weeks consistently now. Again, if the Chancellor is to give some extra resource to deliver Universal Credit, is it that upfront need for more people to manage that start up, or is there some other issue that you would like to—I don't know, more generous work allowances, for example? What would you prioritise?



**Lord Freud:** Okay. The question there is: if there was suddenly more money for Universal Credit, how would I spend it? Okay. I have to caveat this by saying, having seen what the IFS is saying about our finances, I am not—yes, there isn't the money. But let's just say I think I would look at—and going up in the order of priorities—Universal Credit is oddly generous on the way out but not on the way in. I would look at two things to improve that. I think waiting days does not help in the introduction of Universal Credit. I also think you would look at a housing run-on for a fortnight, a housing rent in the old system, and that would start bridging that gap. Those wouldn't cost a lot of money.

Q130 **Chair:** Why won't the Government give you the money to do it then?

**Lord Freud:** Sorry?

**Chair:** If it is such a small amount, David, and such a lot of political, intellectual capital that the Government has invested in the scheme now, why is the Chancellor deaf to pleas on this?

**Lord Freud:** I do not think it is appropriate for me to comment on that.

The next area that I would work on, and this is more expensive, and it will have to be worked on at some stage, I think, is getting the payment system back to some coherence. It was meant to be set up on a 30th percentile and it is now slightly all over the place because of the restrictions. I think getting just a coherent, simple system back, which would cost some money, would be useful. Again, back into the simplicity.

The other area, I am not sure this would cost net money but you will remember that when I left we had just put out a consultation document on supported housing where Universal Credit does not work for very short terms, as we were discussing. If you are going to a refuge for four weeks, or into a homeless hostel for a few weeks—I kept it out originally and now we are looking at a structure of how it should be separately funded. We could look at, and it is mentioned in the consultation document, doing the same with temporary accommodation.

It is just not the structures that Universal Credit is set up to do. We could separate that out, and I know that that is work in hand. Then I think the question about if you really were to throw some money at it—and this is moving right up the scale, unlikely in the short term, but it could happen later—your decision on whether to spend money on the taper or the work allowance would reflect where you are in the economy. So a Chancellor or a Secretary of State could take a decision. At cyclical full employment, more or less where we are, you would start to put money in the taper to start driving people to earn more. If you were looking at a position of cyclical unemployment, you would start thinking about boosting your work allowances. That is, of course, what you can start to do with Universal Credit, which was unthinkable. You can start using it as a tool for behaviour.

Q131 **Chair:** Keith Joseph used to moan about the ratchet effect; once you



have given it you can never take anything away. Supposing you are part of the cycle where you decide that it is appropriate, you are at the bottom of the economic cycle, so you make adjustments to that, you then get to the top of the economic cycle. You can hardly transfer the money over that we have used on the work allowance to the taper, can you?

**Lord Freud:** I think you would have to do it as a ratcheting. You cannot just say, "Bang, that is going out of there. That is going in there". You would ratchet at the margin as you work through the cycle over two or three years. You can start to move it quite appreciably.

Q132 **Neil Coyle:** The taper to economy point I think echoes, certainly, what we have heard from others, and it sounds very welcome. But you have said that once fully delivered this would save £7 billion, and yet the items you have just suggested would cost nowhere near that. Is it that the Treasury lacks faith in your predicted savings?

**Lord Freud:** These are whole-economy savings. A lot of that gain is directing the money you have to the people who need it the most. That is a huge proportion of the gain, and I hope would be welcome right across the political spectrum.

**Neil Coyle:** Save the Children and others tell us about who is going to lose out, including disabled children and children of disabled parents. You are suggesting it is going to go to people who desperately need it. They are the organisations who are telling us they desperately need it. It does not quite marry.

Q133 **Ms Buck:** Would you mind just spelling out for me how that works though? If the majority of the savings, as you have said, of the £7 billion are about investing money in the people who need it most, can you just explain the workings out of that statement?

**Lord Freud:** This is kind of within the winners and losers.

Q134 **Ms Buck:** I am talking about the projected savings. Not the winners and losers, the projected savings.

**Lord Freud:** Yes. The projected savings, the whole economy, there is an elaborate econometric model that is run by the Treasury—

**Ms Buck:** It is supposed to be simple, but anyway.

**Chair:** The system might be simple, but the actual calculations are not.

**Lord Freud:** The calculations are not. The elements of it are quite interesting. The elements are where the money is going and who the beneficiary is. A big part of that £7 billion is because it is going to poorer people more efficiently. That is part of the losers and gainers, which is quite a complicated thing to describe. I will exaggerate wildly; when we started off in 2010 there were people who were on tax credits at £75,000. If you take tax credits away from them, they are a loser. They come up in your statistics a loser. But you can stand up and say, "That is



fine. That is actually what you want; you want to move that money to people who need it more”.

Q135 **Ms Buck:** I completely understand the winners and losers’ argument that you are making, and it is perfectly reasonable. We can argue about whether it works or not, but it is a perfectly reasonable argument. I am still unclear how the redistribution between your winners and losers equates to the £7 billion savings, or the £2 billion that you are saying is a saving. I just cannot see how that calculation works.

**Lord Freud:** I have not got the stats in front of me anymore. I have not got a big team behind me anymore. Can I ask you to ask the Department to run that through with you? I think that is all I can do. That is the stat.

Q136 **Chair:** David, can I put Karen’s point another way then? There are gross savings of £7 billion. Some of that goes to the wider economy. Some of that, in a sense, costs the Department, but is part of the gains of it because we know that this combines a number of means-tested benefits, so that some people who could have claimed benefits but would not claim all of them will now be getting them automatically. Is that the argument?

**Lord Freud:** I cannot remember this table as I should. I have been doing too much bird watching. If I remember, I thought that there were annual savings for the Department of about £1 billion of just running the system. There was £2 billion, from memory, from people who should have received money and did not get it because they could not claim it. I think that came out as a benefit because they were—there were various elements of it, but I think you would find it interesting to pursue.

Q137 **Chair:** Right. The Treasury might think of that as a loss, but for your Department it was a gain because you are in business to get benefits to people in need?

**Lord Freud:** This was a calculation done under Treasury rules. It is quite an interesting and complicated—again, I went through it two or three years ago in some detail, so my memory is a bit loose. But it is a very interesting figure and it is the whole-economy benefit from it.

**Chair:** We will take it up with your previous employers, if we might. Richard, do you want to come in?

Q138 **Richard Graham:** Thank you very much. David, this is all incredibly helpful. As you say, you are one guy, you have retired from this mission, and you do not have stacks of paper beside you, but we can follow up with the DWP on some of the detail.

I just wanted to come back to some of the housing issues that Neil and Karen were raising. These are at the heart of what we as MPs have to deal with, whether with ALMOs or former council housing departments that have been privatised. There is an apparent issue about, effectively, the collection of the rentals. I am wondering, in your discussions with them did you sense that really they want to go back to the previous world where everything was deducted at source and, therefore, they never had





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to worry at all about rental collections? Arrears, in a sense, were not a very big issue because the money was coming directly to them. The tenant was not really involved in that process. Good private landlords—I appreciate we have come across bad ones in our various inquiries—are actually engaging with the tenant the whole time to understand the financial position and to try to work out how, together, they can make sure the rentals are paid and so on.

My first question is, did you sense there was almost a sort of philosophical barrier with some of these organisations getting their heads around the fact that the money was actually going to go to the tenant first and then to them; that they want to stay in a world where it was much easier, they were getting the money and the tenant really did not come into it?

**Lord Freud:** There was a sea change in attitudes, particularly among social landlords. When we started they were very worried about losing their direct payments. Clearly we spent a lot of time talking to them about it. We then created this arrears recovery structure so even if they do get into arrears they can balance it out.

What has happened among many of the housing associations I see—I am seeing them on a very regular basis—is a complete transformation into them saying, “Actually we want to move into the new world because it is a real pain moving someone from being out of work and in work and changing their arrangements the whole time”. There has been a very dramatic change, which I am sure you have all spotted, in the numbers of people in social housing in work. This is the welfare trap that we were talking about that seems to have been cracked open a bit. The proportion who were workless in social housing used to fluctuate between 49% at the worst point of the cycle to 46% at the best point in the cycle. They were all trapped. That was a figure I was very interested in monitoring. The latest figure I have seen is that we have pulled that right down to 39%. That is partly because there has been a change in attitudes generally across the economy about work, there has clearly been more work, but also housing associations have really started thinking, “We are social housing. What is our real role? It is to help our tenants.”

Some of these housing associations are really into this and are trying to help their tenants with their life barriers and everything else into work. You begin to see a dramatic change. People moving in and out of work are organisationally a problem for housing associations because they move from direct payments, they have to do their own, and their arrears and back and forth. That is true in the legacy system. My sense is they are beginning to grip and run with this agenda in a way you would not have envisaged in 2012 when all the concern was, “You are taking away my direct payments and it is awful”.

Q139 **Ms Buck:** We have talked about housing associations. Let us not go back over that again. The counterevidence in another sense is what is happening to people in the private rented sector. That was also a big



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worry. Research done by the Residential Landlords Association shows that the number of landlords who are prepared to let to people on benefit or low incomes and at risk of going on benefit is falling like a stone. Only one in five private landlords will countenance that and it is down to 8% in parts of London.

**Lord Freud:** You see that and then you see the statistics.

Q140 **Ms Buck:** Which statistics?

**Lord Freud:** The people who are in the benefit system and are with private landlords.

**Ms Buck:** Which statistics?

**Lord Freud:** Just the numbers, they are huge numbers.

Q141 **Ms Buck:** That is because the social housing sector is shrinking, more people on low incomes are now in the private rented sector. In terms of them getting new lettings it is falling significantly.

**Lord Freud:** It is not falling a lot.

**Ms Buck:** It is.

**Lord Freud:** Again, I am trying to go from memory here. The number of people on benefits in the private rented sector I think are down 2% over the last I forget how many years. The numbers are not huge. Let me just go through this though because it is a really interesting issue. What we have in the private rented sector is that the norm, introduced by the last Labour Government, was people would pay their own rent—that was the system and we have now moved to the Universal Credit—except those who cannot. A landlord can apply and get an APA, alternative payment arrangement, or whatever you call it, a direct payment in the old world. Roughly a quarter of people in the private rented sector are on that arrangement.

One of the things I have talked to the Department about is that with the Universal Credit we forget who those people are. You would think that if someone is on an existing APA when they go to UC one should know that to make sure those people have slightly different arrangements. That is something the Department is looking at. That would solve an enormous amount of the issues around a private landlord who has someone who moves to UC who then changes their arrangements for direct payments. They do not get paid for a bit, maybe the person has a learning disability or something, and they have to then sort it all out again to their irritation. They can sort it all out because there is a process for doing that. However, it is clunky. Again, this is one of the things that the Department is working on and needs to work out to get that right. It is eminently “get rightable”.

Q142 **Chair:** Can I support Karen before we begin to bring this to a conclusion, David. I regularly have a seminar with both social landlords and private



landlords. Because the social landlords all have the pressure of meeting their bank debts they are keen not to have bad payers anymore. Therefore they move to evict to try to maintain the ratio of tenants who pay to those who do not pay. There is no way that private landlords, unless they have good smell, know these are the people that have been kicked out of the public sector because they mess around with their rent. We clearly then have again not only people who are very noble constituents, who try to do their very best in all the ways in which we would wish to respond ourselves, but also some scallywags in the system. This group then gets into the private sector with no intention of paying. When the private landlords then try to move to direct payments the tenant has gone off to another private landlord. What we are having in Birkenhead is that private landlords—supporting Karen’s point—are becoming more and more cautious, to put it at its very best, of taking people who are on benefit and claiming Universal Credit.

**Lord Freud:** I buy that. The problem with scallywags is true in the legacy system and in the new system.

Q143 **Chair:** It is turning a group of private landlords against both tenants who have no intention of paying and those tenants who are caught up in a system they cannot understand and do not make the payments.

**Lord Freud:** This may be bad news for private landlords but the old idea that you can just stick up a sign saying “No DSS” goes with Universal Credit. You do not have these different sides and groups.

**Chair:** The landlords ask them—

**Lord Freud:** Not now.

**Chair:** —“Are you on Universal Credit?” They are not silly.

**Lord Freud:** The difference is there are 12 million people, 20 million with children, going to go on Universal Credit. It is not going to have this dichotomy between those who are not in work and never have been in work and those who have income supplement. It is not going to have the stigma or recognition element of, “I am going to exclude that group”. Being on Universal Credit will be normal for a lot of people.

Q144 **Neil Coyle:** You mentioned private landlords and that you felt the old system was too static and comfortable for those, and you have mentioned you have done a lot of work with different landlords. How many of the private landlords have you met? Did you talk to Richard Benyon MP whose estate received about £50,000 in housing benefit or Lord Cavendish, a Conservative peer, whose estate received more than £100,000 of housing benefit? Have you had representations from them at all?

**Lord Freud:** I cannot remember if I saw them. I have—not now—seen private landlords regularly. One of the things I have tried to do in this whole process is to see all the stakeholders often because otherwise you do not get what is really going on.



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Q145 **Chair:** I think Neil's point—putting it another way—was whether they, as rather large housing players, were having difficulty with you as they have quoted. That was all.

**Lord Freud:** They had not come to me by the end of December so I just do not know.

Q146 **Heidi Allen:** I suppose the \$64,000 question is when do you think the roll-out will be complete? We have touched on this a little bit already but what are the hurdles in the way, the things that still need fixing?

**Lord Freud:** There is a realistic timetable now that I went through. I do not see why the Department cannot achieve it. They are now well set up. There has been an extraordinary transformation in the Department since I have been there. There are some very capable people. Neil Couling, the SRO, is extraordinary in his competence. I began to feel I was getting in his way towards the end. The team is absolutely there. I ought not advertise Mayank Prakash in IT leadership because he will be poached but he is changing the way that operation works in a fundamental way. The Department now is so completely different to the Department in 2010 that it is unrecognisable. They know Universal Credit now. They know what they are doing. There is no reason why they cannot set up a programme that is sensible.

That does not mean there are not some big things to get right. At different times I would put, "Clearly you have to get this housing right", and some of these issues we have discussed, that the Department is spending the most enormous amount of time and energy to get right and to get to grips with that. The managed migration of a new group of people needs to be tested through rather carefully. They get a group of people and test them through.

Q147 **Heidi Allen:** They are looking at them on both systems, aren't they, to make sure the same numbers pop out?

**Lord Freud:** Yes, exactly. That is to make sure of the transitional protection element. If you are a loser on Universal Credit you get supplementary transitional protection to make you up on the managed migration. It is getting that process to work.

I saw you mentioned self-employment the other day. We have put a lot of energy into getting that right. Self-employment in this area is something you do not get much help with under the tax credit system. You can go on earning miserly amounts without any support. One of the things I was trying to do is build a cadre of work coaches who understood small business. We had a group in, I forget the exact number, and they were spreading that so there was someone in the Jobcentre who would specialise in the self-employed and supporting them in getting to that level if they are not earning enough. It is pulling in some of the new Enterprise Allowance and integrating that into Universal Credit. There is a lot of detailed work there. Getting a group in to help people in the self-



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employment space will be of huge value to the economy as a whole. That is good.

The other thing I would like to see expanded or see what the Department does with it is Universal Support. There is a lot of support for people who are vulnerable but it is incoherent. Making that all coherent in the Universal Support structure would be of real benefit to the most vulnerable. It would save the state enormous amounts of money. The issue is this, if you have say four barriers to getting into work—addiction, mental health, you cannot budget and something else—you could help someone on two or three of them but if you do not do the fourth you still do not have them functioning and back into work. You have to have an ability to look at someone as a whole and get them to the right areas of support, and to watch them on the journey to make sure all of those people are supporting them at the right time. That is a data issue. One of the things the Department is working on is a way of getting data to be shared appropriately within data protection rules so that someone can make the journey they need to do to tackle their barriers. That is something we have never solved up until now. I know the Department is looking very hard at how we build those journeys with the right data.

My own view, for what it is worth, is that you give people control of their data, with digital wallets or whatever. They go around the journey and provide the information they need to provide by volunteering it, with the corollary that you would get the data on an anonymised basis so you know what is happening in terms of payment by results or how well those interventions have worked. There is a lot of work to be done on that. That is an enormously important area in transforming people's lives. It is the most transformative thing for the most vulnerable that we can do. It is a lot of work, that I know the Department is already starting to get at, to expand the existing Universal Support system with something bigger.

**Q148 Heidi Allen:** By the sounds of things that is an extra initiative that would be fantastic. That is not a core part of Universal Credit being rolled out?

**Lord Freud:** I do not agree. As you look at it, it is becoming almost core because you do have vulnerable people in the system and you have to find a way of looking after them. The existing systems work by going to the lowest common denominator so that no one falls out. The trouble with it is that most people can function at a much higher level and you are reducing their ability to function and to go into work. What you need is a support system for the 20% or so who may need that support. It needs to be really targeted to them to look after them.

There are a couple of barriers that we must make sure people can handle but I think there is a lot more there. The expansion is an extra. The core is essential.

**Q149 Heidi Allen:** Date-wise then, when do you think the core will be rolled out?



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**Lord Freud:** Universal Support is rolled out. That is working. It handles a couple of barriers.

**Heidi Allen:** Universal Credit as a whole system in terms of all the core data and all the core people being on it.

**Lord Freud:** All the people on it and to close down everything, the timetable is March 2022. That is the published timetable.

**Heidi Allen:** Five more years.

Q150 **Neil Coyle:** Will Universal Support, which is really welcomed to the full service areas, be expected to run until 2022?

**Lord Freud:** Universal Support for the barriers of getting people on, yes. If you go to expanded Universal Support, the one I was describing, I suspect that is a longer thing. There are a lot of different services going on. It is a system of corralling them so they are working together and working effectively.

Q151 **Richard Graham:** All you said about Universal Support is something we are all interested in and will want to pursue. The points you made about speeding up the first payments would be important practical steps and we will be looking into that.

There are one or two other points in your experience that I suspect are relevant to Government as a whole. One of them, looking at some of the things you have said, suggests that looking at security, data security above all else, is incredibly important. That was probably underestimated by the Department at the beginning of this and possibly underestimated elsewhere in Government. Any thoughts you have on security, particularly in today's cyber-active world, will be interesting.

Secondly, you talked a bit at the beginning about the whole process of not outsourcing IT. Another thread of the narrative that comes through is the problems you had dealing with the Government Digital Service and that you needed the private sector—Vocalink especially at the beginning, without which arguably nothing could have happened, but also later on other companies—to help the Department develop its own capacity and capability. I am interested in what you see as the role of the Government Digital Service in the sense of this process of building up departmental capacity.

**Lord Freud:** The Government Digital Service was, at the key point, immensely useful. What they did was create a data architecture that was also secure. That was what we had been missing in the original structure. What was happening in the original structure was that you had the security people and the data coders fighting. You have to have that integrated. It was a guy called Tom Loosemore who went in and created a data architecture that was secure. One of the things I made sure of was that I had that data architecture tested. I best not name some of the people but you can imagine the internal resource the Government has to test whether we had a data architecture that was secure. Currently that



data architecture is secure. I have to be a little bit delicate in this area. That is one of the issues all systems need to have. It is no good retrofitting your security. It has to be at the heart of your data architecture and design. That is essentially one of the things that the latest digital system does. It is useable and secure.

Having said that, one of the things about having a Government Digital Service is you can put too much emphasis on it. You need that capability within the Departments because IT is a service level to your operations. Again, you are looking at the problem of putting your IT capability externally and not internalising it within your operational system. There are lots of operational people wrapped around the IT people and the data architects. You need to integrate that. That is why you need them in-house because you need it to integrate with your operations. If you do not do that you lose control of how you are operating. The right external people are clearly invaluable.

The VocaLink process moved on to the system of talking it through with the banks and getting an agreement with the payment industry about how they should run the payment system. The reason that was important was DWP is the biggest user of the payment system in the country. We should therefore have a coherent view about what we want from the payment system. Rather than just being a consumer we should be saying, "We need this, that and the other". We need to talk to the banking industry, and we did, to create something we would find useful. It was interesting that there were very few other people in the economy, all of whom would benefit from a better payment system, who were having that dialogue with the banks because they all thought it was too difficult.

Q152 **Chair:** Was that part of the £7 billion gains, David?

**Lord Freud:** No.

**Richard Graham:** That is a "freebie".

**Chair:** That was a real gain to the wider economy.

**Lord Freud:** When you get your bank statement you see something on it saying, "Slough something" and you go, "What on earth was that payment?" You cannot remember it because there is not very much information around each payment. Imagine getting to a system where the information around the payment is within the payment. If you are a company like BT and you are buying a million of one particular widget from seven different companies and they are doing a flow of those every month, trying to reconcile that with the payments is a very expensive job. That is just a microcosm of the costs to the economy of all the reconciliation of payments and what they are for. If one can have a world-class payment system that gets rid of that problem it is a real improvement to the efficiency of the economy. DWP is one of the



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beneficiaries. We can see it very obviously in a lot of ways. We had to go out and ask for it and encourage the industry to come around to it.

**Q153 Steve McCabe:** I wanted to go back for a second to this idea of enhanced Universal Support. If what you are talking about is end-to-end problem solving—trying to get away from this referral circus where we fragment and label different bits of people’s chaotic lives and have an army intervening in those bits—I would agree that is the way to resolve quite a lot of people’s problems and save an awful lot of money. With the exception of maybe the Troubled Families initiative I cannot think of a single Government programme that adopts that approach. I wondered if there was anything you are aware of that is happening now that we could have a look at. This is a great idea. It is not a new idea. I am sure you know it has been around for a long time. There is very little evidence of Governments adopting this approach at all.

**Lord Freud:** There have been lots of local programmes.

**Steve McCabe:** There has been some stuff by Vanguard with schools.

**Lord Freud:** There are quite a lot of local things. The issue is data. These things have always fallen down on data and data protection. That is one of the reasons why it is difficult to do it locally. You can do it if everyone is sitting in the same room, doing it small and locally. Doing it on a national scale like this is about having an organised data system. That is why some of the work that DWP is doing on getting the data right, and they have a programme to work on that, is essential before you can do it. That is the first stage. Once you start the second stage, getting the health system into that, will be really transformative.

**Q154 Steve McCabe:** Is there anything you would recommend that you have seen that you think we should look at now?

**Lord Freud:** Universal Support is a narrow slice on barriers that works. Nobody has taken all of someone’s barriers. What do you need in that system? First of all you need an agreement among all the parties and you need to create the envelope. Then you need a way in. The work coach is something that the local authorities say is a very good way in. It doesn’t have to be the only way in. Then you need a diagnostic capability or a case worker in there and you need to be able to have the data to go around the process. The three key elements are: the envelope, the diagnostic, the data. Those are big issues, big things to do, and it would make all of the money that is currently being spent not very well infinitely better. That is the reason why no one can point to it because unless you have the big data issues sorted you can’t do it.

**Chair:** I am really anxious, because you have seen the interests of the Committee and I don’t want to lose them. I want to discuss afterwards not only how they would answer Alistair Darling’s question but how we take this evidence forward. But Heidi has a point before we do that.

**Q155 Heidi Allen:** Picking up on when you were describing a couple of things





earlier. One is the issue about wraparound support for more vulnerable people and how all the stars have to align to really help them. The other is you requesting that some of the work coaches be specially skilled in self-employment, small business. Is it your view that we should have specialist work coaches spread across the DWP estate to help on, for example, mental health knowledge, disability knowledge? One of our biggest concerns is that work coaches are not going to be specialised.

**Lord Freud:** When you look at the history of Jobcentre Plus and DWP—I remember doing this in 2006 when I went round the Department and asked what DWP was really doing. It was having a system of effectively you get paid but you get nagged to go to work. You come in, you sign in fortnightly, and there is a process to push you to work. As you move to full cyclical employment, more or less, you are now dealing with a totally different group of people who have barriers and problems and issues, and you are talking about a rather different type of intervention with people. You are trying to analyse their problems and sort out their barriers.

The interesting thing is that with the claimant commitment, they are beginning to see those barriers and recognise them in a way that earlier they would not have done. I remember going to one Jobcentre and talking to the work coaches and I said to them, “You have got someone in front of you. How many of them that you see do you think have mental health issues?” They said probably about 20%, which is interesting because the statistic is 22% of people on JSA have mental health issues. But I don’t think a work coach would ever have been able to recognise that until we had this much more elaborate relationship with people.

I have been round a lot of Jobcentres—as I am sure all of you have—and the work coaches are extraordinarily good, very impressive, but I do agree with the direction of your question that some of these things now are getting quite specialist. We talked about self-employment where you need to understand how a balance sheet works, what a business plan is, what is a realistic endeavour, all those things. We have always had a group to do people with disabilities, the DEAs. Their role has been not as productive as it could be because the structure of the old disability benefit stops people with disabilities going into work because they risk losing them. With UC that doesn’t happen. You have a reinvigorated role for DEAs and there is a group of problems there.

Each of the major Jobcentres will probably have two or three specialists looking at the particular barriers that people have, not to see everyone because one of the good things about UC is you don’t move from desk to desk depending on, “I’ve got a disability, therefore I go to that desk”. You stay with the same work coach, but some support within each Jobcentre of people who really know and understand some of these quite specialised areas I think is something that—how do I phrase this—I am sure the Department will look at very closely.

Q156 **Ms Buck:** Has there been any learning experience from the role of the specialist advisers under the new deal for young people, the new deal for



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disabled people, the new deal for lone parents, when many of those skills and interventions were exactly what we were doing?

**Lord Freud:** I don't have any data on that.

Q157 **Ms Buck:** The Department must have data, surely.

**Lord Freud:** Yes. I just don't have that data.

Q158 **Ms Buck:** I suppose what I am asking is when you were, until a few weeks ago, in the Department and the work coach model, which is all fine and good, under Universal Credit was being developed, did the Department look at what was effectively a version of exactly the same thing that was built into Jobcentre Plus through the new deal for at least a decade?

**Lord Freud:** I am not conscious of it.

Q159 **Ms Buck:** Would that not be extraordinary, given that that did happen and there would have been a great deal of monitoring and research into the role of the new deal programme and the role of specialist advisers then?

**Lord Freud:** One of the problems is that they cannot tell you the information that happens under a previous Government, so you are actually kept away from some of that information.

Q160 **Ms Buck:** Hang on. Possibly to some degree, but on the other hand there is a great deal of academic and commissioned research into those models that would be publicly available. I remember sitting—as I am sure everybody who was a Member of Parliament before 2010 does—with specialist advisers, either under the new deal programme or ongoing after that, doing exactly what you are now talking about. There can be no question that that work was examined, researched and written up. I am just asking you if you ever knew anything about it.

**Chair:** It was published much later.

**Lord Freud:** It was published much later. I don't know the history of how we got to the claimant commitment but I would not be surprised if that was one of the things that came out of that process. I am sorry, I don't know.

**Chair:** No, I was just trying to claim authorship for it but got nowhere.

**Lord Freud:** I don't know the history of that development, so it might have been that but I was not doing that then.

**Chair:** David, it has been fascinating. Thank you. If you have further thoughts you might like to give us, might you do that? I know you don't have the office and staff but it would be very valuable. I don't think we are going to leave this here after listening to you because it is so important. Particularly the tension you must have had between knowing that if you disappeared this would not have happened, it would not have



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got to this stage, with all the other duties you had to do as the Minister in the House of Lords for all the other Government programmes and other things beside. What was the battle like for your time, knowing that this was the mega thing that you were working on and yet the political pulls of the Department were taking your time elsewhere? Any reflections on that would be really helpful to us. Can we leave that with you? Thank you very much. It was fascinating.