

# Work and Pensions Committee

## Oral evidence: Universal Credit rollout, HC 336

Wednesday 29 November 2017

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Members present: Frank Field (Chair); Heidi Allen; Andrew Bowie; Jack Brereton; Alex Burghart; Neil Coyle; Emma Dent Coad; Ruth George; Chris Green; Steve McCabe; Chris Stephens.

Questions 173-249

### Witnesses

I: David Finch, Senior Economic Analyst, Resolution Foundation, Andrew Hood, Senior Research Economist, Institute for Fiscal Studies, Victoria Todd, Senior Technical Manager, Low Incomes Tax Reform Group, Deven Ghelani, Director, Policy in Practice

## Examination of witnesses

David Finch, Andrew Hood, Victoria Todd and Deven Ghelani

Q173 **Chair:** Welcome. Thank you for waiting for us. We were congratulating ourselves on our success with the Budget, and quite rightly too. David, would you begin by introducing yourself? We will go down the line and then Alex will begin our questioning.

**David Finch:** Sure. I am David Finch, Senior Economic Analyst at the Resolution Foundation.

**Victoria Todd:** Hi, I am Victoria Todd, Senior Technical Manager at the Low Incomes Tax Reform Group, part of the Chartered Institute of Taxation.

**Deven Ghelani:** Hi, I am Deven Ghelani. I am the Director of Policy and Practice.

**Andrew Hood:** I am Andrew Hood and I am a Senior Research Economist at the Institute for Fiscal Studies.

Q174 **Alex Burghart:** Good morning, everybody. Thank you very much for joining us. The Committee was obviously pleased with the announcements made in the Budget but we are always on the lookout for new ways to improve Universal Credit. If you had to prioritise the next step the Government made, obviously working within the bounds of what is financially plausible, what would you seize on next?

**David Finch:** As the six-week wait has shown, there are definitely parts of the design of Universal Credit that are not really fitting with—

**Chair:** Can you please speak up?

**David Finch:** Sorry. As we saw with the six-week wait, there are elements of the design of Universal Credit that just do not fit with the reality of people's lives. As more people come on to the system and as more complicated claims join the system, we will start to see more of these issues coming up. Probably one of the big ones is likely to be the treatment of self-employed people, as more self-employed people come on to the system and their interaction with the minimum income floor.

**Chair:** Great, all right. We are going to come on to that later.

**Victoria Todd:** I was going to say exactly the same thing, and I know we are going to talk a bit more about that, but self-employment for me is the key area.

**Deven Ghelani:** Besides putting more money into the work incentives of Universal Credit, from a more practical and operational perspective the things I would be looking at as a Committee are the skills of DWP staff in providing general advice and guidance, and then specifically complex



advice and guidance for more specific cases that affect vulnerable people, so that people know where they stand within the system. The follow-on from that is ensuring that any proposals made by the Committee on Universal Credit stick to the framework of trying to keep the benefit system simple, both for other Departments to administer—and I am thinking of free school meals here, council tax support, free prescriptions—but also for claimants to understand as well. People need to know where they stand and sit within the system.

**Chair:** We are coming back to that.

Q175 **Alex Burghart:** Frank, just before we move on, very quickly, Deven, your first point was putting more money into Universal Credit in order to improve incentives within it. Where would you put that money and how much would you need in order to make a tangible difference?

**Deven Ghelani:** “How much do you have?” would be the question. The point I would make is that if we are prioritising work incentives for, say, middle-income earners through tax cuts, we know that they can have a bigger impact with the same money on lower-income households. I would think of that more as a transfer because it is about supporting those first steps into work and rewarding and recognising that, for low-income earners who are perhaps in working poverty to feel better off and for other changes, like tax cuts and other things, to filter down more into the pockets of low-income households.

**Andrew Hood:** Following on from what Deven has just said, it is important, as a Committee and for everyone who thinks about Universal Credit, to distinguish between the administrative challenges and the changes in what people are entitled to. Prior to the 2015 July Budget, UC was just a big reshape of the system where, on average, entitlements were going to be relatively unchanged. Post the cuts to work allowances announced then, it is now significantly less generous than the system it is replacing. Certainly, as we move from people moving on to Universal Credit to people living on Universal Credit, the underlying generosity of the system might prove in some sense more important, relative to administration, than might be the case right now.

**Chair:** All right, thank you. Because the two of you have mentioned self-employment, Steve, might you pose the self-employed questions we want to get into?

Q176 **Steve McCabe:** As I understand it, there are a number of options for reforming the minimum income floor, but what I really want to know is: do you think there should be an MIF, what does it currently achieve and what would you recommend for reform? Maybe I should start with Victoria and come to David.

**Victoria Todd:** The simple answer is, no, we don’t think there should be a minimum income floor. If we go back to the purpose of the minimum income floor I was looking up a quote from Lord Freud who summarised what it is there for, which is they don’t want to prop up unproductive or



## HOUSE OF COMMONS

loss-making businesses. Therefore, the minimum income floor is there to incentivise individuals to increase their earnings. It was also to address a perceived loophole in the tax credit system, where people can report very little income for a long period of time, which isn't desirable.

We accept there has to be a balance between protecting public funds on the one hand and supporting self-employment on the other, but the problem with the minimum income floor is that it is a broad-brush tool used to address that minority problem, and it just does not deal with fluctuating earnings. That is not just people who have low earnings. People who on an annual basis are above the minimum income floor can receive substantially less Universal Credit. Some examples we have done showed a self-employed person getting £2,600 less over 12 months, which just does not seem fair. Also, if you have one-off business expenses, if you have to pay a large expense because you cannot pay it over 12 months, you get less Universal Credit. Again, it just cannot deal with that.

The other issue is that the start-up period is only one year. Research shows it takes on average three years for a self-employed person to get to the National Minimum Wage. That is definitely too short a period.

Q177 **Chair:** Your solution, Victoria?

**Victoria Todd:** One solution would be to take the minimum income floor out altogether and tweak the gainful self-employment test. That at the minute is a gateway. The advisers in the Jobcentre will apply the gainful self-employment test and only if you are gainfully self-employed will the minimum income floor apply. You could use that test to filter out the people who you are concerned about with low earnings.

In our recent report what we said is you could keep the MIF and you could make some tweaks and extend the start-up period to two years at least. The other big one is to allow averaging of earnings across up to a 12-month period. You could bring in some anti-abuse provisions that would help DWP deal with people who are potentially manipulating earnings. We would also like to see some discretion for Jobcentre advisers to disapply the MIF in certain situations.

Q178 **Steve McCabe:** Thank you. David, do you have anything additional to add?

**David Finch:** I broadly agree with Victoria. The first big problem is that you are trying to treat self-employed income like the income of employees and it does not fit, basically. The pattern of self-employed earnings does not fit with that pattern. Because the MIF is applied on a monthly basis it creates the problems that Victoria has explained. We have not gone as far as saying you should not have the MIF at all but, if you are going to have it, it should really be applied on an annual basis. Then effectively it becomes like a gainful self-employment test where you are checking self-employed people's earnings once a year or once every



## HOUSE OF COMMONS

six months, having a conversation with them about how their business is doing but you are not penalising people each month who have varying earnings but who, over the year, are earning more than the minimum income floor threshold.

**Deven Ghelani:** To give a slightly different perspective on things, a couple of questions for the Committee to consider in return. One is how you feel about the minimum wage in particular and, again, if you are not supportive of the minimum income floor, why you feel after a period of time of setting up the business some businesses should be exempt from paying themselves that. That is a very interesting philosophical dilemma that if you are against the minimum income floor you need to carefully consider.

**Steve McCabe:** That is a good point.

**Deven Ghelani:** That is not to say the minimum income floor is by any means perfect. Averaging earnings over a period of three, six or possibly 12 months, but probably over a shorter period of time, is a positive. It would help. Fundamentally, from a taxpayer perspective as well, the trade-off is you are avoiding conditionality. By being self-employed you are effectively avoiding some of the work requirements, which is why sometimes income from self-employment, albeit not necessarily being gainfully self-employed under tax credits, is an attractive option for some people and perhaps the right one. I am not suggesting there is anything wrong with that. There is that trade-off of avoiding conditionality and I can understand that from the taxpayer's perspective.

Q179 **Chair:** How long would you give someone from their self-employed income to get themselves up to the National Living Wage?

**Deven Ghelani:** Twelve months does not seem massively unreasonable. You could take longer.

Q180 **Chair:** But do you think it is reasonable?

**Deven Ghelani:** To expect people to—

**Chair:** In one jump. It is sometimes suggested to people one way of leaving the benefit is to become self-employed, or one way to improve your lot is to become self-employed. If we apply the test to ourselves and think how long it would take us to form a self-employed business and get ourselves up to George Osborne's living wage, do you really think a year is enough for us members of the Committee?

**Deven Ghelani:** The perspective most business owners take is one around the future prospects for their business. The minimum income floor is a marginal thing. If you are earning £5 an hour on average for your effort then the impact on the minimum income floor is less, because the income it is assuming is less than it would be if you were earning £2 per hour nominally. If you back the future prospect of your business, you are avoiding the conditionality and you are focusing on its growth, then that



## HOUSE OF COMMONS

is a choice that should be left to the business owner. As someone who has started a business himself, you take that punt and you take that risk yourself.

**Q181 Chair:** How many self-employed are going to be on Universal Credit when it is fully rolled out, if you have the figures, and what would the cost be for a one-year, two-year or three-year stay of execution? Does anyone have that?

**David Finch:** We think about 600,000 self-employed people will be on Universal Credit when it is eventually rolled out. There is a fundamental problem with trying to work out what the impact of the MIF will be because there is just no good data on self-employed income. The OBR pointed this out in the Economic and Fiscal Outlook. They have something like 300 cases. The data isn't hugely robust. I was quite surprised that DWP were not using administrative data from HMRC to do their costing. I assumed they had better quality data than we can access externally and that does not appear to be the case.

**Q182 Andrew Bowie:** Just two very quick things. One is to follow up on the relationship between the gainful self-employment test on the way in and the minimum income floor. The point is that there might be some cases where you genuinely don't know if the business is going to work. It is not that you can substitute completely between them. There is an idea that when somebody shows up I think, "That might work". It is not that it is a joke. It is a serious proposition but it might fail. The minimum income floor is there to say, "Yes, it is gainful, but we don't know whether it is going to work".

Following up on the smoothing issue about not doing it on a monthly basis, it is worth saying that you can do that in a way that is more or less complicated to administer. My guess—feel free to correct me—is that if you had the Department here they would be saying, "The monthly assessment period is a key element of Universal Credit and it is hard to be judging people's entitlement based on a longer period", but that is not actually what you need to do. When applying the minimum income floor you need to bear in mind past performance.

It is not that you need to say, "What I am entitled to depends on my earnings over the whole of the past year". It is just that, rather than if in month 13 I have zero income from self-employment and that is it, I look back and say, "In month 12 this person made a lot of money from their self-employment and so I am not going to apply the minimum income floor". You can use history in a way that does not significantly complicate the administration, I don't think.

**Q183 Neil Coyle:** There seems to be an assumption that all self-employed are business owners. Is there a need to distinguish between those who are genuinely trying to establish a business or have the costs that you outlined, I think, Victoria, and those who are in some of the jobs the Committee looked at, which is bogus self-employment including Uber and the like?



## HOUSE OF COMMONS

**Deven Ghelani:** Yes. My first point was around the living wage and whether or not you support that, because you are effectively subsidising some gig economy businesses that rely on self-employed people, if you allow those people to earn less than the minimum wage and to undercut rivals elsewhere. That should not be lost in this conversation. You are either for minimum wages or you aren't.

**Andrew Hood:** You are absolutely right that, for instance, if you had a single person working 16 hours at the National Minimum Wage as an employee, then the Jobcentre reserves the right under Universal Credit to say, "You need to look for more hours. You need to increase your earnings because, at the moment, the taxpayer is paying you a lot of money each month to top that up". It seems that if that person was working for Uber you would want the Jobcentre to have the same powers.

Q184 **Chair:** We are proposing changes in the law in this grey area, whether it is bogus or not, about whether people should be earning the National Living Wage. Therefore, isn't it the law that would take care of this problem, more than us trying to devise a benefit change that would take care of it? If you are bogus self-employed because your employer makes you be self-employed, the proposals that we have made with the BEIS Committee are that in fact there should be a minimum wage test on the employer and what they pay. You will be able to opt for worker status and part of the contract is that the pay would be starting at the national minimum.

**Deven Ghelani:** That might work for the gig economy element of this challenge. The other challenge, when you are thinking about the minimum income floor and how it is treated under Universal Credit, is that there will be people on Universal Credit who are genuinely trying to start up a low-income business. It is how you treat that income: I am cleaning windows. One month I am cleaning a lot, another month I am not. That is the problem.

Q185 **Chair:** What we are trying to do is use this session maybe to do a report on self-employed, which also relates back to our report with BEIS and the importance of when it is bogus the National Minimum Wage has to be enforced. Of course it doesn't deal with all of them but it will deal with a chunk, the change in employment law.

**Deven Ghelani:** The sense of competitiveness between those two different types of businesses, those with employees and those with semi-employees or however you want to call it, needs to be dealt with.

Q186 **Ruth George:** I was going to ask if you felt there should be any different rules around self-employed workers who have a limit on their capacity to work, either through disability or through lone parents. I know recently HMRC has been having a go at childminders on the tax credit system, partly because of the way their income is calculated, claiming they are not gainfully self-employed. How would that dynamic fit in with the minimum income floor?



**Victoria Todd:** The current rules deal with that to some extent. The minimum income floor only applies to people who were in the old Work Requirements group. If you fall into the other conditionality groups, for example because you have limited capability for work, then you would not have the minimum income floor applied. We often talk about the minimum income floor at 35 hours times the National Minimum Wage, but in the legislation there is an ability to lower that if somebody has a physical or mental impairment or they have care responsibilities. They could set it at a different number of hours for that person. That is already built into the existing system.

Q187 **Chair:** Victoria, do you think that works well? We are thinking about a series of short reports on Universal Credit. Do you think that has gone to bed and we don't need to worry about that particular aspect?

**Victoria Todd:** We have not had a great deal of feedback yet because the number of people in the system who are self-employed is still quite small. I did a radio interview recently on this topic and they played an interview with a taxi driver who has been subject to the minimum income floor and who fell ill. She said, in that respect, they did take away the minimum income floor at that point. I don't have a lot of feedback on how that is working.

Q188 **Chair:** Was she in any way disabled? It is the disabled aspect I want to box off.

**Victoria Todd:** She was temporarily unable to work because of illness and they did take away the minimum income floor. I have not heard of any problems with people who are disabled falling into the wrong conditionality group but, as I say, because the numbers are small we might not be getting the feedback.

**Chair:** Sure. That will change.

Q189 **Steve McCabe:** I don't want to pursue it now, but if any of the panel have any additional thoughts on this that they would like to give us as further written evidence, it would be really helpful. Particularly I thought Deven's point was a good point of contrast with the other things. Also, I am anxious to know how the various alternatives might work, so if you have any further details that would be really useful.

**Chair:** Any sort of costings, with all the health warnings that would be with them, we would be grateful for.

**Heidi Allen:** Just on that very briefly before I come on to my question—sorry, am I allowed to sneak a little?

**Chair:** She is a recidivist.

Q190 **Heidi Allen:** I am glad, I think. I remember when we were looking earlier at Universal Credit and the expertise of work coaches, our concerns were that we were expecting them to be geniuses and experts at everything. Do you think if you had a couple of qualified, knowledgeable ex-business- owner work coaches in each Jobcentre that



we could make the system so much less complicated? It is about discretion and knowledge. If they sit down in front of a work coach who goes, "Yes, this business is going somewhere" or, "No, forget it", could that be a simpler, more cost-effective way of ironing out this minimum income floor, the whole debate and how you build a system around that?

**Andrew Hood:** My sense is that that is an example of a bigger trade-off. One person's discretion is another person's postcode lottery. That is in some sense the trade-off you are always dealing with when you are thinking about designing the benefit system. Each individual is an individual and you would like them to be treated as such. On the other hand, the idea that if I turned up at Jobcentre X I would be treated differently than if I turned up at Jobcentre Y is something that people rightly feel is unfair. It is very hard. You are going to have to locate somewhere along that.

Q191 **Heidi Allen:** Business success isn't black and white, is it? There are lots of variables in there. Perhaps just put it in the melting pot.

**Deven Ghelani:** It is still a judgment call for whoever you have in that chair, however experienced. If you are going to have an expert in Jobcentres I would make them an expert in complex Universal Credit assessments, more generally, because that is where the biggest gains can be had.

**Chair:** Can we keep on this topic with Andrew and Jack and then come back to you, Heidi, because it is an area their questions will lead on from.

Q192 **Andrew Bowie:** I was going to ask: do you think Universal Credit makes work pay for all employment groups? David, I think you have some interesting things to say.

**David Finch:** In a way, it depends on exactly which part of Universal Credit we are talking about and which groups. The two improvements Universal Credit is bringing in are through the work allowance and the removal of the hours' rules. They are making it pay to work quite short hours or below the 16 hours in the current tax credit system. That should be quite a benefit to people who cannot quite make the 16 hours at the moment. It might be single parents with quite young children or people with disabilities. On that side it is a positive improvement. The very high taper rates in the current system have been capped, so that again—

Q193 **Andrew Bowie:** You don't think there is enough evidence on the right level of taper rate, do you?

**David Finch:** When you look at the literature, where there is better evidence is on people moving in and out of work, that tells you that the people sensitive to those changes, who have been most responsive in the past, are single parents and the second earner in a couple with children. That is usually because they are basically mothers who are trading off their childcare responsibility with work. They tend to be very responsive to the financial incentives, but you don't have good evidence on what the



## HOUSE OF COMMONS

precise taper rate should be. I don't think there was an announcement in the Budget this morning.

**Andrew Bowie:** There wasn't, no. There was no announcement in the Budget.

**David Finch:** There was a small amount of money for doing some progression pilots and I think they do need to test quite rigorously exactly what the right taper should be. It might be that if you are looking at the right combination, then you can start to trade things like the work allowance off against a much lower taper. It all needs to be investigated more thoroughly so we really know before you do a big taper move, basically.

Q194 **Andrew Bowie:** I am seeing Andrew nodding vigorously.

**Andrew Hood:** David was saying that where we have evidence it is on what kinds of people are responsive. That might mean that for different groups you might want the system to look slightly different. That is already there in some sense because different groups have different work allowances. There is no reason in theory why you might not want different groups to face different taper rates. That is certainly something you might want to consider.

Q195 **Chair:** Andrew, just give us two groups that you think might have different taper rates.

**Andrew Hood:** To follow David's example, we know from past evidence that lone parents with school-age children are quite responsive to the financial incentives they face when deciding how many hours to work. You might think that you are willing to spend the extra money associated with having a lower taper rate on that group because you think that you will get an employment response, whereas, for example, most evidence suggests that men in couples tend to basically work the hours they can rather than being very responsive to the incentives you are given to work different amounts of hours. You might want a higher taper rate for them because they will look for the hours regardless of what you do to their financial work incentives. That is a simplification.

There are also dimensions to it. We know there is different sensitivity for different ages of children. Again, there is a case that you might want the system to be particularly generous, in terms of not taking Universal Credit away when you add hours, to people with school-age children because they are more responsive than people with one and two year-olds, for obvious reasons.

Q196 **Andrew Bowie:** Do you think that is workable in practice? It sounds very good in theory but do you actually think that is a possibility?

**Andrew Hood:** As always, it is a trade-off between simplicity and tailoring. People seem to think that having different work allowances for different claimants isn't confusing beyond—



Q197 **Heidi Allen:** It is a fundamental part of the system, isn't it?

**Deven Ghelani:** Work allowances are a specific mechanism to target support on specific groups. If you think about having the same conversation around tax rates and applying different tax rates to certain groups over others, you are getting into very problematic territory. My view is that I don't think it is workable. I think it adds unnecessary complexity into the system, and one of the things the Committee should consider is ensuring Universal Credit stays simple. I am all for trialling and if we can learn a lot about how people respond to work incentives during the initial pilot period, that makes sense, but ultimately I think you have to decide on a withdrawal rate for people.

**David Finch:** Can I add to that? The idea that everyone will understand what their work incentive is on Universal Credit is probably oversold. The idea that you have one taper is also oversold because you don't. If you throw in things like tax, National Insurance and council tax support as well—I cannot work out the number of variations now—you get much more than one taper rate.

We don't think people are moving in very small margins. It is about the jump and transitions in work. We should be thinking about things like additional one-off payments to get people into sustained work or to move up in hours. There was recent evidence from ERA trials back in the 2000s where a time-limited payment for single parents going straight into full-time work had a significant impact on them working those hours. You could use the taper to mirror that by having a lower taper for a certain period of time or something like that, but I don't think we should be stuck on: we only have work allowance and one taper and those are the only parameters you can shift.

Q198 **Chair:** Should we also have a taper that supports couples together rather than being better off if they split up? I have been shocked in my seat how high up the income scale one parent will make a decision not to live with the other parent because they could be so much better off on Universal Credit or tax credits if they are separate. Therefore, they have built in, "We will not be a couple, in that sense, even though we have children". You have two claims to that, £400 a week better off.

**David Finch:** There is a question of how many people you are trying to target on that issue. If you did try to strip out any couple penalty in the system, I don't know what the exact effects would be. It might mean that you need quite a bit more money to do it to stop there being some significant losers.

**Chair:** I was just speaking against Andrew's line, really—using my position as Chairman—saying that it looks good but there are moral hazards in this. We underestimate the intelligence of people to read the incentives we are giving them without what it does to culture. Sorry, back to you, Andrew. Are you happy?

**Andrew Bowie:** Yes, I am very happy.



Q199 **Jack Brereton:** I want to focus a bit more on the frequencies of payments, particularly around those initial payments. We have seen that there are geographic differences in the UK. In Scotland and Northern Ireland, there are different systems and different approaches from what we have in England and Wales. There have been some varying views on that. Neil Couling, for example, did criticise some of that and said that there would be disadvantages for those claimants in Scotland. I particularly want to ask: how important is it that we have those flexibilities for Universal Credit claimants to decide the frequency of those payments?

**Deven Ghelani:** If you think about one principle of Universal Credit, to try to make the payment like work, and if you think about the transition into work for people when you have flexibilities within the benefit system that cater for you where perhaps you will not have those with an employer, that is the only issue. I have no issue with how frequently people are paid or choose to split their payments. That is absolutely fine and up to them, as I would want it to be up to me.

The question I would ask is whether it is best for the DWP and Universal Credit to crack that problem, or if that is where we should put additional pressure on the financial services sector—which in this country is pretty advanced and is very well funded—to try to solve that problem for everyone, so that, when you move into work or when you are being supported by an employer, you have those same flexibilities that many people are arguing for low-income households. That should apply to middle-income households as well.

**Andrew Hood:** In a sense, this is one of the challenges with Universal Credit being universal. At the minute you have different bits of the system, different benefits, trying to cater for the lowest-income households in the country and those who are right on the edge of the labour market. The challenge is for those who are right on the edge of the labour market—the arguments about how similar the system is to what they will face when they are in work are the ones that you would want to dominate. Whereas, for those who are right up against it, in terms of having very little disposable income, you might think that asking them to budget across a month is difficult. That in some sense is an argument for flexibility, but perhaps flexibility that isn't entirely at the discretion of the claimant but somewhat at the discretion of the job coach or work coach, if that makes sense. The people who are a long way away from the labour market, it might be appropriate that they get paid fortnightly—

**Deven Ghelani:** So particular conditionality groups, for example.

**Andrew Hood:** Yes, exactly. You could vary payment frequency by conditionality group. That might be one way of finessing the trade-offs that you face there.

Q200 **Jack Brereton:** Are there additional flexibilities that the Government



## HOUSE OF COMMONS

should prioritise?

**Chair:** While you are thinking about that, can I also ask, before we go to Chris, supposing it works well in Scotland—I don't know whether it is; Chris will tell us more—one way of making it universal again would be to make that two-week payment for everybody, across the whole country, wouldn't it?

**David Finch:** The problem with the fortnightly payments is that you are still getting that first two-week payment after what is now the five weeks. You are left with only two weeks' payment after waiting five weeks, essentially. The flexibility I think is right. You should be able to choose the payment frequency that suits your needs best. It is just a problem as you are moving into Universal Credit. It is hard to think of a good way to solve that problem. Using an advance for the first two weeks is okay as long as that advance isn't too big so that there are basically arrears that you have to pay back over the next year. That is why the Housing Benefit run-on that has been brought on is quite crucial.

**Chair:** We are coming on to that.

**David Finch:** Sorry. I just think it is quite good for that.

Q201 **Jack Brereton:** If I may come in, Chair, that was certainly the issue that was raised about the Scottish system. The full payment would not be received until potentially eight weeks after going on to the system, which leaves claimants in Scotland disadvantaged as they are not on to a full payment for a considerable period.

**David Finch:** It is that problem with a "one size fits all" system. You need the monthly payments because, if you did a fortnightly assessment and people are paid monthly, then you would have to start averaging out their monthly earnings and it would be an even bigger mess, essentially. It is a transition problem right at the start of a claim. You need a slightly different approach for those people. An advance without housing in it seems like it will probably be the right thing that will work for that.

**Chair:** No, don't keep going. We are coming back to housing. Chris, do you want to come in on this on Scotland?

Q202 **Chris Stephens:** Obviously there is the support and the evidence to suggest that the Government's theory that people were paid four-weekly or monthly is wrong and a number of people are moving direct on to Universal Credit who were previously paid weekly or fortnightly. In their world view when they get their money is every two weeks. Have any of you done research on this on people who are moving to Universal Credit who were previously paid weekly or two-weekly? There is now more written evidence coming into the Committee to support that that is the case.

**David Finch:** We have some analysis that is based on current data that picks up people's earnings patterns and then if they claim Universal Credit in a following period. There are two things it showed. One was that



## HOUSE OF COMMONS

if you looked at people who are in constant employment and on the tax credit system, your typical couple with children or a single-parent working family, the majority of those are paid on a monthly or four-weekly basis, which is the kind of statistic that DWP have been using. When you then look at people who are moving into unemployment, the majority of those—I think it is 58%—are paid weekly or fortnightly. Specific groups of people are being paid in different ways and the system needs to adapt to account for that.

**Chris Stephens:** In their world view then, if they have come off a system where they are used to receiving money on a fortnightly or a weekly basis, they will then ask DWP to pay them on that basis. In Scotland, people are being paid fortnightly. People in Scotland will be used to that if they have moved from a job into Universal Credit, if they have lost the job.

Q203 **Chair:** Victoria, can you help me with the Scottish system? I thought how it was working would be that, like as in England, Wales and Northern Ireland, people would now—thank goodness for the Budget changes—would be able to initially claim up to what was thought to be two weeks of what would be their whole allowance. There will then be three more weeks before there could be a definite payment of what the sum was. You would then get a payment after three weeks and then it would settle down to two weeks. That is, as I understood it, what the very intelligent people who run Universal Credit have sold to the Scottish people. Is that right?

**Victoria Todd:** My understanding is, as David explained it earlier, that in Scotland it is more delayed than it is in England because you only get two weeks' payment—in England you get four—once you start on the payment cycle.

Q204 **Chair:** The payment cycle is broken down in Scotland to two weeks.

**Andrew Hood:** To simplify, payments under the Scottish system are only ever delayed. They are never brought forward. You delay half of what you get paid to two weeks later. I think the idea is that it is just there to help people budget. Rather than giving them the full money for the next month then, you give them two weeks' worth and then two weeks' worth in two weeks' time. The key thing is that none of the money is coming forward in time. It is only ever going backwards in time.

**Deven Ghelani:** Breaking it up in the way that you described was one of the options to try to tackle the six-week wait, but the driver behind it is that DWP are very reluctant to estimate people's Universal Credit awards. They want the income for the full assessment period before they tell people how much they are going to get.

Q205 **Chair:** Sure, but I thought it was nevertheless—let us be optimistic and say it is five weeks—that you would get two weeks' worth. You could claim up to what was estimated to be your two weeks. Then if it does work the next payment will be at the end of three weeks, and then the



## HOUSE OF COMMONS

payment cycle would be broken for you so that you get it every two weeks. What I thought was so interesting about the Scottish experiment was that, if it was shown to be working, it would be one I think most of us would want for our constituents rather than the monthly. I know we should not be doing this but it is much more interesting to have a conversation. What is wrong with that, Jack?

**Jack Brereton:** I think it is quite concerning—the system in Scotland—because it does post-date a lot of the payments, which means that people will not be receiving, if they want to, a full payment as soon as they would here in England.

**Andrew Bowie:** Chair, might I suggest it might be a good idea to get someone from either Revenue Scotland or in the Scottish Government to explain their system?

**Heidi Allen:** It is not as good as it sounds, is it?

**Jack Brereton:** It is not as good as it sounds.

**Chair:** All right. The last word is with you, Chris, and then we will move on.

Q206 **Chris Stephens:** I was just going to say it is about budgeting. The panel is right here. It is about helping people budget. That for me is a key issue.

**Deven Ghelani:** That budgeting challenge—there are advantages to being paid monthly in the sense of perhaps being able to buy things in bulk, having all your money all in one place to deal with monthly outgoings like rent. There are some positives that we need to be careful we don't lose in this conversation, which people might want to hang on to. It is important to take that into account. This idea of budgeting, if people need help with that, it is not just people on Universal Credit who necessarily need help, which is why I think looking to the DWP to fix some of these broader problems is not necessarily the right place to look. The financial services sector and a financial inclusion approach more generally has a very important role to play. Some of our work on financial inclusion supports that.

**Chair:** Sure. All right, we will come back to this because I would like it to work. I thought it was going to work in Scotland so we could have it in England.

Q207 **Heidi Allen:** Perhaps, David, we will start with you because you were just starting to touch on it. Two weeks of Housing Benefit were given in the Budget, which I think most of us here were absolutely delighted with and expected. It is a great solution, given that so many of the headaches around Universal Credit were rent arrears and the risk of homelessness. I want to ask you all, perhaps starting with David, what that solves but also what more we need to do around the whole housing piece.

The Landlord Portal, should everybody have access to it? Do we need to communicate better with landlords, private or social, around this two-



## HOUSE OF COMMONS

week payment or just comfort that money is coming? We have heard a lot of stories—some of them scare stories, some based in reality, I am sure—about private landlords threatening eviction and all the rest of it. Clearly that is not on. I am interested in your views on the housing piece, starting perhaps with the two-week benefit.

**Chair:** What is not on, the scare stories or the landlords threatening?

**Heidi Allen:** The landlords threatening eviction.

**Chair:** Yes, like in Great Grimsby. Sorry, David.

**David Finch:** I don't want to go off-course too much, but just on the point about the two-week payment being made early, you risk bringing in a reconciliation every month. If you give an advance of actual entitlement, if you pay people two weeks of estimated entitlement up front, you risk having to then make adjustments at the end of each month.

Q208 **Heidi Allen:** It is not refundable though, is it?

**David Finch:** Away from advances, if you tried to give people, after two weeks, half of their entitlement, estimated on what their circumstances would be, you then would have to adjust the payment they get at the end of the month.

Q209 **Heidi Allen:** Are we going back to the previous conversation?

**David Finch:** Yes, sorry. On the Housing Benefit thing, our problem with the advances was always that you are creating quite a big debt up front that you then might have to have clawed back over the next six or twelve months. The housing advance gets around that by basically taking housing out of the short-term cost issues for people. Their housing is covered and then if they need an advance, which is the best of lots of very—there are no good solutions to this four or five weeks' waiting time but the housing run-on helps to get around it.

A lot of these arrears seem to be occurring because housing associations and social landlords are not talking to DWP and vice versa. Some of this seems to come down to basically how they are counting and when they say arrears start to build up for their tenants. Because UC has been taking longer to get paid or the payment period that Universal Credit has differs from what the social landlord has, technical arrears are rising.

The rent is going to be paid by Universal Credit at some point, it is just not in the time period they wanted it. You almost get to a point where inconsistencies and probably bad communication between DWP and landlords means that technical arrears are rising. It is almost a tragedy that you have arrears building because of two systems not talking to each other properly rather than it being any other more technical issue.

Q210 **Heidi Allen:** Does the Landlord Portal fix that? Are there other things we could do?



## HOUSE OF COMMONS

**David Finch:** The Landlord Portal seems to be the thing that will fix it. Landlords seem quite positive about it. I suppose it is a question of exactly who gets the use of the portal and how quickly it is being rolled out to different people. It is probably too early to know if it has been effective yet. There is a big lack of information about arrears and where they are arising so it is going to be quite hard to know how effective the Housing Benefit run-on is, given there is nothing to compare it to. You get different housing associations trying to look into this and you get the stories in the media, but I don't think there is an official measure of how many people are in arrears on Universal Credit now to compare to once this run-on is exhausted.

Q211 **Chair:** We do know. We have data on that. Victoria, maybe I again misunderstood the Chancellor and gave him too much credit when I should not have done. I thought the two-week run-on would be payment, in a sense, under the old system. That is, it would go to the landlord. It would not be beyond the wit of mankind to tell the landlord, "This run-on is coming from Universal Credit, so you might have a bit of a ropey time in the next few months before the payments settle down, but we promise you they are coming". That is the key thing that is missing from the operation of Universal Credit, vis-à-vis landlords. They don't seem to appreciate that there has been this mega-change in welfare that will affect how they, hopefully, receive Housing Benefit. Do I have that wrong as well?

**Victoria Todd:** Housing is not an area that I deal with, but that is my understanding.

**Chair:** Fair enough. Let's go to somebody who does.

**Deven Ghelani:** This is a pretty big bonus for landlords. They should walk away and take it as a win. I think that is a very positive thing because it helps sustain tenancies in that period of moving on to this new system. It is administered by local authorities still, so it is effectively a double payment of Housing Benefit for those first two weeks. It helps deal with the technical-areas issue that David mentioned, and the money from the Universal Credit is coming, bar perhaps from people who need additional support to manage their money, fundamentally.

In focusing on this, we need to be very careful that we are not prioritising landlords over claimants because, ultimately, it is the customers of the system who we want to get. My personal viewpoint is that, in some respects, housing is overvalued within the benefit system relative to other support. If you are targeting support, there is something about targeting support on the other income elements of Universal Credit.

Q212 **Chair:** When you say it is a double payment for landlords, Deven, what do you mean by that?

**Deven Ghelani:** They are getting the two weeks of Housing Benefit in addition to the housing element of the Universal Credit being paid for that full assessment period.



## HOUSE OF COMMONS

Q213 **Chair:** But that could be a bonus for claimants if, in fact, the Housing Benefit is only credited to the accounts of landlords and there is a two-week bonus at the end of all this—whenever the end comes—that claimants could pick up, isn't there?

**Deven Ghelani:** Yes, you are right. It deals with a specific landlord issue.

**Andrew Hood:** If you take the simplest case to think about, which for a number of claimants, even on the old system, it is not directly paid. Their Housing Benefit is not directly paid to their landlord. It is paid to them and then they pay it. Basically, they are getting the amount of money the Government deem they need to support their housing costs twice for those two weeks, because they are getting it in the old system and in the new system. Frank, you are right that—

Q214 **Chair:** It will appear in their rent account as two payments?

**Andrew Hood:** Yes, or if it is going through their bank account they only need to pay it out once. The point is the housing element of UC is not arriving for another month or three weeks, but then when it does arrive at five weeks in they have already had two weeks paid for them. To play devil's advocate for a minute, this clearly has a lot of benefits. Also, this particular group of people who are transitioning from Housing Benefit to UC, the taxpayer is paying two weeks of rent twice. That might be something you want to do.

**Chair:** Neil disagrees.

Q215 **Neil Coyle:** I am not sure this is accurate. Don't you think that local authorities, in particular, would look to claw back overpayment of Housing Benefit? They would see that as Housing Benefit fraud, were that to occur.

**Chair:** It cannot be fraud if the Government have decided to—

**David Finch:** It is new spend. It is not the same entitlement as earlier, it is an additional spend.

**Neil Coyle:** We will have to get this clarified because I think there is a misunderstanding.

Q216 **Chair:** It is all part of the £1.5 billion or £1.6 billion additional money on Universal Credit, isn't it?

**Heidi Allen:** Politically, it just takes the rent arrears and the homelessness headache away. It takes that away.

**Andrew Hood:** It is only a short-term spend as well, so the spend drifts off once UC is completely rolled out.

**Chair:** I think for once my interpretation is right, but I stand to be corrected.

Q217 **Chris Green:** What housing associations say to me is that they don't know that a tenant is in rent arrears until they find out that they are on



## HOUSE OF COMMONS

Universal Credit, or when a tenant tells them they are on Universal Credit. Should paying rent through the landlord portal be the norm—as Scotland is trying to do—and that, rather than allowing a claimant to decide whether to keep the money or not, there should be a direct payment to the landlord, through the landlord payment of Universal Credit?

**Andrew Hood:** That comes back to the issue that Universal Credit is trying to deal with this wide range of circumstances. The reality is if I get a job that takes me off Universal Credit, I am going to have to manage my rent and pay my landlord myself. That is in some sense the argument the Government have always made for reducing the role of direct payment in the system, that direct payment is not the norm for people not on benefits.

Again, you can think about this by the conditionality route, some claimants are a long way away from work, where direct payment might be more appropriate, but it certainly does not seem to me that across the board direct payment should be the way everyone is pushed to go.

Q218 **Emma Dent Coad:** Given that work incentives are one of the major platforms of Universal Credit, do we know enough about the employment impact yet to forecast its costs and benefits and in what period will that be recorded so that we have a decent—

**Chair:** Specifically on that, what size sample is the Department talking of, when Emma puts that question, showing there are the hopefully wonderful employment consequences?

**Andrew Hood:** The key issue with the existing evidence we have on the impacts of Universal Credit isn't sample size, it is in some sense sample breadth. The only official evaluation that the Department has done has been of single jobseekers, the people who have no spouse, no kids, and they would have been on JSA. That is a very, very small group of the eventual Universal Credit caseload.

Q219 **Chair:** How many is it now, Andrew, that they base these predictions on?

**Andrew Hood:** I don't know, off the top of my head.

**Chair:** Because I think it is mighty small.

**Andrew Hood:** The issue is not around statistical precision from not having a big enough sample size. The issue is that there are half a million people—

Q220 **Chair:** No, there are two issues, Andrew. There is one whether the sample is large enough to make these predictions. Secondly, there is whether the sample is reflective enough of the entire group to make predictions for the whole group.

**Andrew Hood:** My argument is that the second of those issues is the one that we should be concerned about.



## HOUSE OF COMMONS

**Chair:** That is the key one, you are saying—all right.

**Andrew Hood:** Yes, because in the long run, Universal Credit is going to have roughly 7 million to 7.5 million people on it. At the moment, there are about half a million people on Jobseeker's Allowance, some of whom have children as well. This is a very small section of the eventual population and you might think a very unrepresentative one. This is the group with the fewest barriers to the labour market so, while it is good news that it does seem that there is an employment impact, I think it would be heroic to assume that that would be replicated among the groups the Universal Credit will eventually—

Q221 **Chair:** Can you remind us, Andrew, what is the employment exactly?

**Emma Dent Coad:** 3% to 4%.

**Andrew Hood:** Yes, 3% to 4%, six months out.

**Chair:** Is that a three or four percentage point difference?

**Emma Dent Coad:** That is on this first sample who, as you say, are the most likely to get benefit from it.

**Andrew Hood:** Most likely to respond, yes.

**Emma Dent Coad:** The change is 3% to 4% of a very small sample of the people most likely to get benefit.

Q222 **Heidi Allen:** This is the live system, I think, isn't it, rather than full service?

**David Finch:** It is the live system, when you had a work allowance for this group as well, which is now not there any more. I suspect that for this group anyway, once you are in full-time work, they would have been off Universal Credit unless they had some housing costs, so it is probably not the financial incentives as much. What we don't know from the study is what has driven the employment change. You don't know is it the support they are getting from people, is it some higher level of conditionality, is it the finance incentive. It is not apparent what is doing the work, and that is quite important.

Q223 **Chair:** Have they not controlled for each of those factors before they presented us with their conclusions?

**Andrew Hood:** Yes, I think David is right. I would not be too concerned about the robustness of the results for the sample they are for, but understanding why you get them is very difficult. That is primarily because what they are effectively doing is comparing different Jobcentres, and there might be lots of things. A Jobcentre that is rolling out Universal Credit might be different in a whole host of ways from a Jobcentre that is not rolling out Universal Credit.

Q224 **Chair:** When you say you are not too worried about all of this, we are worried because, on the basis of this, the Government claim that there is a very important increase in work as a result of Universal Credit.



## HOUSE OF COMMONS

**Andrew Hood:** I would be worried, if I were you, if the Government were claiming anything about the overall impact of UC on the 7 million people who will be on it, based on this very small group of individuals.

Q225 **Emma Dent Coad:** At what point will we be able to get some accurate statistics? At what point would it be fair to get a representative sample and know that this has made a difference to them? At what point will that be accurate?

**Andrew Hood:** To be the bearer of bad news was a task that my colleagues at the Institute for Fiscal Studies were set a couple of years ago by DWP, to do a scoping study on what a robust evaluation of employment effects of Universal Credit would be. They came back and said, "The design of the rollout means that you cannot do it". To deliver a robust system will be expected by—

Q226 **Chair:** So you resisted the fee?

**Andrew Hood:** Yes, indeed. We came back and said—yes.

Q227 **Neil Coyle:** They did say that they did not think there would be a comparative route to replicate the initial study that was done—that was something they said here—but what would a good study look like? David, I think you just touched on this. What is it you would be looking for? I think you mentioned the incentives.

**Chair:** Andrew, did you go back and say, "We would love to take the fee, because we are not shirkers, but it would have to look like this to be meaningful"?

**Andrew Hood:** The honest answer is I don't know. To come back to what you can do—

Q228 **Chair:** You will let us know on that, won't you?

**Andrew Hood:** I can send you what the conversation was.

Q229 **Ruth George:** I understand from the DWP, from the role I was in previously, that it is doing pilots of in-work conditionality and people increasing their hours. That involves half of the people who are in work who are being rolled on to Universal Credit, and it is assessing four different systems for conditionality.

**Andrew Hood:** That is exactly what I was going to come on to, and indeed the Budget included more money for trials and testing of different forms. Within Universal Credit it is certainly possible, and the Department is trying, as far as I am aware, to say, "Within the system of Universal Credit we could do in-work conditionality this way, by calling everybody once a month or we could call them twice a week". There are variations within the system. We are trying to test and assess which ones are effective. I guess the broader question of what is the impact of this whole package that Universal Credit is, that is where it is very difficult. Because it is being rolled out gradually to different kinds of people over time it is



## HOUSE OF COMMONS

very hard to find groups that are the right control group, as far as I understand.

**Deven Ghelani:** I wanted to come in for Emma's benefit and the whole Committee. We have been commissioned to do a piece of work by the LGA looking at exactly this. I will let Andrew correct me on the methodological limitations. Our fees are not nearly the same as the IFS's, so we are limited in what we can do. What we are going to be doing is looking at half a dozen or so full-service Universal Credit local authorities where it is rolled out, trying to be as nationally representative as possible, looking at the employment effects for the cohort that are on Universal Credit versus a similar cohort on Housing Benefit, using local authority administrative data where we are able to visibly see that; the purpose being to engage the Department, you and others, in a conversation about this, which is based on evidence as opposed to supposition, so that the robustness can be challenged. I am sure there will be methodological limitations but we all have to move ahead on the basis that something is better than nothing.

Q230 **Emma Dent Coad:** I am still a bit confused about when we are going to get any kind of accurate feedback. If, as we have heard, the first rollouts are on people who are naturally going to benefit more anyway, at what stage can we? That question is still open, isn't it?

**Deven Ghelani:** We will be reporting on full services sites, which includes the whole claimant population, and aiming by April next year.

**Chair:** April next year? That is good.

Q231 **Ruth George:** I am particularly concerned about people with fluctuating incomes, both employees and self-employed. Do you think at the moment that people, as employees, understand the impact of the taper rate if they take on extra hours, for instance in the run-up to the Christmas, that their next Universal Credit payment will be knocked back by 63% of their additional earnings?

**Deven Ghelani:** This is the problem I set out to solve when I set up Policy in Practice, to try to make the benefit system simple for people to understand. It is certainly possible to figure that out. It is not something that I feel a worker automatically has in their armoury, partly due to how Universal Credit is being rolled out. But the systems we put in place, for local authorities and housing associations, allow people to very quickly flick across the hours that they might be working, in any given week or month or assessment period, and see what the impact on their take-home income would be. It is a very solvable point is the point to take away.

I think there is some resistance from DWP—perhaps rightly—because it is the DWP that is providing people with estimates of what their Universal Credit might be. I disagree with it on this and think estimates are better. Again, something is better than nothing.



## HOUSE OF COMMONS

**Chair:** I agree.

**Deven Ghelani:** I think that is a role that work coaches can play or claimants should be advised to search that out.

**Chair:** It must be better than nothing.

Q232 **Ruth George:** So there is a problem at the moment?

**Deven Ghelani:** I think it is a very solvable problem in providing work coaches with that information.

**Ruth George:** It is a problem.

**Deven Ghelani:** Yes, but it is a very quick fix.

**David Finch:** There is some DWP research that asked claimants if they understand the different incentives in Universal Credit. From memory of the tape of it, there was some misunderstanding of exactly what the return would be from it, which I don't think they highlighted at the top of the report, but it was in there.

The other thing is understanding how people will react to the pattern of the payments against their earnings. If you have a month where you earn a lot of money, your UC goes down in the next month. Then if that month is where you are earning less, it does not necessarily match up. It is hard to know exactly how people will respond to it and how they will take it. It might be that if you are paid at the end of the month and then you get your UC a few days later, you might think of it as part of the same income. But if you compare what Universal Credit you get in the month you are working, it is not necessarily going to match. That is the difference. You are trading off the more responsive measure of your income against not having a steady, averaged amount over the year like you would with tax credits.

Q233 **Ruth George:** How do you think the surplus earnings rules, when they come into effect, are going to impact on that, on people with fluctuating incomes? My particular concern is people who are paid four-weekly, because once a year they get that double whammy of the two full pay packets falling into one month.

**Victoria Todd:** Finally a question I can answer. Surplus earnings are not due to come in until April 2018 because they have been delayed a couple of times. I have worked in this area for 14 years and dealt with a lot of tax and benefit legislation. The surplus earnings is one of the most complex areas that I have come across. Every time I know that I am going to have to answer a question on surplus earnings, I have to go back and look at it. It is very complex. It is complex for DWP to explain to people. It is complex for people to understand.

We have talked a lot about the six-week delay at the start of people getting payments. What the surplus earnings are saying to people is, "You will have to budget. If you move into a fairly well-paid job, for the



## HOUSE OF COMMONS

first six months you are going to have to budget that money in case you need to come back on to Universal Credit". It is complicated, and I think people are going to find that very difficult.

The purpose of surplus earnings was to deal with manipulation: people who were manipulating their income and also people with fluctuating earnings. We questioned whether there was any evidence for employees as to how easy it is to manipulate your income, and for the self-employed, because they already have the minimum income floor. In the examples DWP put forward when they brought in surplus earnings, they used an employee who was taking income in month 1 and month 7 and then getting maximum Universal Credit in the months in between. A self-employed person would not get the same result because they would have the minimum income floor applied in the intervening months. It is very, very complicated and I don't think it will be easy to administer or understand.

Q234 **Chair:** What reform would you advocate?

**Victoria Todd:** Instead of surplus earnings, we would like to see some averaging. When the Social Security Advisory Committee did the consultation on surplus earnings, in the DWP response they felt that averaging of earnings would be more complicated. But within Universal Credit they already do averaging for conditionality. When looking at the conditionality earnings threshold, they use averaging. We think averaging would help, or again some sort of anti-abuse provision to stop manipulation.

**Chair:** But if you have a regular wage packet, it is not abuse, is it? You cannot help your wage packet.

**Victoria Todd:** Absolutely.

Q235 **Chair:** Thinking about how we are going to do reports, what reform would you suggest on this front, and then we will try it out on the group?

**Ruth George:** Certainly averaging would help for people with 13 pay packets who are paid four-weekly, which is an enormous number of people within the Universal Credit system, because all major retailers pay four-weekly, for starters. That one month a year, already we are getting examples of people who don't understand why they don't get a Universal Credit payment when they have budgeted to get it and it suddenly throws them into debt, which is what we are trying to avoid. I think certainly averaging in those situations would help.

For people with fluctuating earnings, sometimes a lot of big employers pay a Christmas bonus—a lot of employers pay a Christmas bonus—and people will then get the advantage before Christmas, spend it and, as you say, they don't realise that it will hit their Universal Credit payment after Christmas and put them in debt. Certainly, if it something that happens every year, you know that employers pay it. It is something that can be built into the system to be averaged to stop that big hit.



## HOUSE OF COMMONS

Q236 **Chair:** Would people agree with that or not?

**Andrew Hood:** There is a general issue, both for employees and the self-employed, about how Universal Credit deals with incomes that vary month to month. One way of thinking about that is that tax credits are an annual system. It is the case that, if you had a good year and then a bad year, tax credits did not smooth that out. It is just now that Universal Credit is going from good month to bad month, and that might be a much bigger issue than good year to bad year.

The surplus earnings rules are separate in that—as Victoria said—they were brought in with this very particular purpose, to stop manipulation. My understanding is that in the recent discussion about whether the Social Security Advisory Committee was advising whether to delay them and was commenting on that regulation, it asked the Department, “Do you have evidence of the manipulation that you were concerned about?” The Department’s response was, “Not yet”. I think there is a question about whether they brought something in to stop something that is not happening, and you might want to go back to the drawing board on that.

Q237 **Ruth George:** Do you think it should be delayed until we have more people on Universal Credit, particularly as the rollout has been delayed, so they can assess how much of a problem it is, if at all?

**Victoria Todd:** There certainly should be some evidence base around the manipulation aspect. Just touching on the self-employed, I talked about the example earlier where you compare a self-employed and employed person over 12 months. At the MIF level they were £2,600 worse off. When you add the surplus earnings in front of that, they became £3,000 worse off.

There are some positives to this. One positive to the surplus earnings rules is that it allows for loss carried forward for the self-employed for 11 assessment periods, but it only allows you to bring losses down to the minimum income floor. If you don’t have losses but you have very low earnings in a month that provision doesn’t help you. The surplus earnings added to the minimum income floor can make the self-employed even worse off.

Q238 **Chris Stephens:** Mr Finch, I know the Resolution Foundation has done some work on this. How should the DWP determine the eligibility for free school meals under Universal Credit?

**David Finch:** This was always going to be an almost impossible policy to get right, in that the nature of Universal Credit, without any jumps in it, means there is no natural point at which you can buy out the entitlement to free school meals, essentially. I think where it has landed is a place where it is trying to preserve the entitlement that exists at the moment. On balance, we think it is probably slightly more generous to people than the current household thresholds because you are picking up some people. Effectively it is set at 16 hours of the National Living Wage, so if you are under 25 then you could be just below that threshold. If you are



## HOUSE OF COMMONS

not working 16 hours a week, then you are also coming in there. I think the data on who benefits is quite bad. The 50,000 that has been mentioned, I am not quite sure how they can quite say 50,000.

**Q239 Chris Green:** There are concerns with where it is set. The number of hours that you have to work to be able to recoup that money—if you have to work a large number of hours that creates a disincentive.

**David Finch:** Yes. It is bringing in the cliff edge back into the system that Universal Credit was meant to get rid of. The work allowances are now so ungenerous. It is happening at a point at which the taper applies to your income. If your free school meals are costing you £10, then you are effectively having to earn about another 30p to get that back. Part of the problem is there is no good solution to how you deal with this. You can spend a lot more money and give free school meals to everyone on Universal Credit, at a time when probably that extra money would be better spent on something like an improved work allowance, essentially.

**Q240 Chris Green:** It would cost about £600 million to do that and, if you have that money, there are better places to spend it.

**David Finch:** Yes, because you are effectively giving free school meals to everyone on Universal Credit and that is getting up into middle-income households as well.

**Deven Ghelani:** Introducing an income threshold for free school meals decimates work incentives for those people who are getting free school meals. If you have three children you have to earn between £4,000 and £4,500 gross to overcome the losses, because you have to pay that out of post-tax, post-Universal Credit income. Introducing a new threshold is a bad idea in the context of trying to make Universal Credit work for people and to support to progress in work, so if you take nothing else away, take that away.

As a fix, give free school meals to every child on Universal Credit, because then when you are off Universal Credit your post-tax income is considerably more generous than your post-tax, post-Universal Credit income. That is the first thing. If you wanted to do something to control the costs, you can lower work allowances for those people who are getting free school meals. That reduces the cost by about one third for those on free school meals. I can share a more detailed briefing paper with you on that afterwards.

**David Finch:** We clearly disagree on the solution on that one. There is a thing about where that threshold is and who it affects. If you are a couple and the main earner is going into work, you would expect that to be straight to full-time hours. Essentially, their return from doing that is mostly improved under Universal Credit anyway but it is similar to where they would be in the current system. If you go from not working to one person being in work, you have no free school meals and you are working full time, you would end up in the same position, so there is a question of



## HOUSE OF COMMONS

who is affected. It being at the 16 hours would suggest that it might be single parents affected at exactly that point. If they are going to work slightly more than that in the first place, then they are not in a position where they are making a marginal decision on working an extra hour.

Theoretically it completely undermines the work-incentive structure because you have put this cliff edge in, but then there is a question of who gets affected by it. I think, because it is at the point at which it is expecting people to be in work anyway, few people will be in a position where they have that marginal—that choice is being taken away. That is slightly eased by the universal free school meals for infants as well. If you think the point at which a parent is most likely to go back into work is when a child starts school, they are getting a free school meal at that point for their child. It is taken away from them at the point that they are already in work and established. That is probably going to have less of an effect.

**Q241 Chris Green:** There will be a more significant impact the larger the family is as well. If you have three or four children, it is going to be a dramatic impact, wherever that change happens. Any suggestions to mitigate that problem?

**David Finch:** You could mitigate it by having a more generous work allowance in the first place, so that where the entitlement goes is at the point the work allowance applies so you are able to earn back that money more quickly. There is a genuine question of who is facing this decision. I don't think there is going to be that many people who are in that position now. It is set at 16 hours at the National Minimum Wage, so when you go from not working to working 16 hours you don't have the free school meals anyway. That is the situation you would have in the current system too.

The problem then is more that because UC is so much less generous than tax credits, it is just a general question of generosity of the system rather than the specific free school meals. There is a difference with the line we draw on a chart where it is dropping. I think it is a problem but I don't think it is such a big problem that you need to do a massive shift.

**Q242 Ruth George:** Is it the case for free school meals that increasing the number of children who qualify decreases per head of cost of free school meals? That is certainly what they found under the pilots of universal free school meals. Obviously in primary schools you already have universal provision for infants. If you are looking in some areas, significant numbers of children then also qualify and it does tend to reduce the cost of providing those meals if so many children are getting them anyway. I also wondered about the other passported benefits, probably free prescriptions and the free childcare for two-olds, and the vouchers.

**Chair:** And healthy living vouchers.

**Deven Ghelani:** My take on that is you have other Departments; obviously it is their budget and to a certain extent it has an impact on



## HOUSE OF COMMONS

their end result, but I think you have to deliver Universal Credit as a Government. Other Departments need to take their lead from DWP in ensuring the overall structure of Universal Credit retains things that it was introduced for: simplicity, work incentives, clarity. These have been thought about many times and in some depth by the SSAC for two or three years, by us, by the CFJ, by Policy in Practice and the Resolution Foundation. There are approaches that I think broadly need to be imposed on those passporting Departments that help retain the integrity of the overall system.

Q243 **Alex Burghart:** To take us very quickly back to where we began—now you have all had a chance to listen to each other and cogitate—what do you think is the single issue that the Government should focus on, should prioritise, when looking to improve UC? To put it another way, what do you think this Committee should focus its attentions and energies on?

**Andrew Hood:** I will come back to what I said at the start, which is I think it is clearly crucial that Universal Credit is administered and rolled out in a way that does not cause hardship. It is also crucial that, in the long run, the system is fit for purpose in terms of the generosity of what it provides and the incentives that it creates for people to work different amounts. One thing to throw is that we have increasing evidence that one of the challenges is that where the system incentivises part-time work rather than full-time—for example, that is very much the case on the tax credits for the 16-hour rule—

Q244 **Chair:** But what is the answer to the question, Andrew? What is the one thing?

**Andrew Hood:** It depends what the priorities of the Committee are.

Q245 **Alex Burghart:** What would your priority be if you were us?

**Chair:** And why is it a priority?

**Andrew Hood:** If my priority were to restore the extent to which Universal Credit strengthens work incentives, I would be looking at the work allowances first and foremost.

**Deven Ghelani:** I would in the short term focus on getting the right information to customers, ensuring that their experience of Universal Credit is positive, they know where they stand, helping vulnerable claimants in particular deal with complex assessments and get all of the support they may be eligible for, both from DWP and other Departments. That will help massively in these important early days. In the medium term, you have to get the Government and other Departments ensuring Universal Credit stays simple, other elements stay in place and then finally investing in work incentives.

Q246 **Chair:** On the first point, Deven, might you give us some draft paragraphs of how that might look in a report, getting the right information?



## HOUSE OF COMMONS

**Deven Ghelani:** Sure.

Q247 **Alex Burghart:** On the incentives, Deven, at the start I think you suggested that Government could look again at tax allowances as a way of finding money in order to pay for these things.

**Deven Ghelani:** Yes. These are trade-offs that Government make. What you are effectively doing is improving work incentives for one group by reducing the personal tax allowance, for example, to go from £10,000 to £12,000. That same incentive could be put in place by increasing the work allowances within Universal Credit. That money could arguably be better targeted or certainly targeted toward a different group of people within the economy, low-income households. Similarly, that could also go towards reducing the withdrawal rate, which helps higher low earners.

Q248 **Chair:** The impact of that change, though, would be significant, going back to Emma's question. If you were trying to increase the four percentage point difference in employment, this would be an allowance that would very specifically be targeted on many who might respond to that in getting a job.

**Deven Ghelani:** It would improve both the pockets and prospects for those households. One of the challenges in the study I mentioned for the LGA is that we are not comparing like with like, because Universal Credit is less generous. In some ways, if it is maintaining employment at the same rate, there is something going on there.

**Chair:** That is a factor as well.

**Victoria Todd:** It is probably no surprise that I would say it is self-employment and particularly the minimum income floor, but looking to how better that balance between protecting public funds and supporting people into self-employment by removing some of the impacts on fluctuating earnings and one-off expenses. How can you smooth that, I think is—

**David Finch:** Short term, I would be concerned about self-employment as well and also the system around reporting childcare costs and exactly how that will work. They are two complicated bits that have not been tested by the people on Universal Credit yet. But definitely medium and long term is to restore the generosity of the system and put that—

Q249 **Chair:** On the childcare plan, might you give us a note, please?

**David Finch:** Yes.

**Chair:** Thanks. It has been a great session for us, even if we have not managed to persuade you very much what our Work Programme should be. Thank you very much. We will now consider that when everybody is out of the room.